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ABSTRACT

The Commission evaluated a wide variety of alternative tax sources and examined the existing structure in Connecticut. It specifically evaluated inequities resulting from Connecticut taxes as they affect various classes of citizens and examined the impact of the Connecticut tax structure on business with a view to encouraging economic expansion. The Commission also reviewed thoroughly the property tax. The three volumes which this report summarizes are organized around the economic and fiscal profile of Connecticut, revenues and expenditures, local government property tax reform, assessment reform, tax reform for individuals, and tax reform for business. (JF)

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State of Connecticut

THE REPORT OF THE GOVERNOR'S COMMISSION ON TAX REFORM

Submitted to Governor Thomas J. Meskill

Pursuant to Executive Order 13 of 1972

SUMMARY

EA 005 590

HARTFORD, CONNECTICUT
December 18, 1972

This Report Consists of the Following:

SUMMARY OF COMMISSION REPORT

VOLUME I STATE FINANCE
Revenues and Expenditures

VOLUME II LOCAL GOVERNMENT
Schools and Property

VOLUME III TAXPAYERS
People and Business

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(appointed by the Governor pursuant to Executive Order No. 13 of 1972)

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Tax Reform — Purposes, Objectives and Programs

Commission Formation — Tasks Assigned

The Governor's Commission on Tax Reform was established by Governor Thomas J. Meskill's Executive Order 13 dated June 15, 1972, a copy of which is reproduced along with the letter of transmittal contained at the beginning of Volume I.

The tasks assigned to the Commission included the examination of all sources of revenue available to State and local government, including Federal programs. The charge required evaluation of a wide variety of alternative tax sources, as well as examination of the existing structure in Connecticut in detail. The Commission was specifically charged with evaluating inequities resulting from Connecticut taxes as they affect various classes of citizens. The charge also included examination of the impact of the Connecticut tax structure on business with a view to encouraging economic expansion in order to create new jobs, and evaluating the competition with other states in the search for industry. Lastly, the Commission was charged with a thorough review of the property tax, including the burden on homeowners and investment property and the use of the property tax in financing schools.

As finally developed, the overall objectives can be stated briefly as follows:

1. To study, through current research, the reports and recommendations of prior Connecticut commissions and committees, similar efforts and documents from other states and Federal agencies, and public hearings, Connecticut's economy and the impact of its public finance system on various kinds of economic activity and on Connecticut's competitive position in various economic areas. The Commission also considered the degree to which the fiscal structure achieves an optimal distribution of its costs and benefits among the citizens and businesses of the State; and the possibilities for improving Connecticut's fiscal structure, operations, and administrative procedures.

2. To provide the Governor, Legislators, and voters of Connecticut with an objective, factual, and analytical survey of their fiscal system in order to promote a clearer understanding of that system and to facilitate its revision and improvement.

3. To make such findings, conclusions, and recommendations for adjustments in the present fiscal system as the Commission may agree are necessary and desirable to minimize adverse effects on economic growth and development, remove inequities and inequalities in the distribution of the tax burden, and provide adequate revenue to meet the estimated future needs of Connecticut's State and local governments.

Primary Orientation of Proposals

Equity. Considerations of equity and equality, both within the framework of particular taxes and among different taxpaying groups in Connecticut's economy, have dominated much of the Commission's study and policy deliberations, and are apparent throughout the Commission's specific recommendations.

Economic Growth. The area of greatest concern in this regard is the taxes which impose direct penalties upon the expansion and improvement of job-creating industrial and commercial facilities, primarily the sales tax on manufacturers' machinery and equipment and the personal property tax. The objective is to shift the major burden of business taxes from investments to profits; that is, from taxes that impede progress and expansion to those that reflect business success achieved in a climate conducive to growth.

Administration and Compliance. The property tax assessment problems, the need for procedural changes in State taxes, and the need for uniform municipal practices require attention to allow more complete, equal, and even-handed enforcement of Connecticut's State and local tax laws.

Strength of State and Local Governments. A program is needed to provide greater financial strength for both the State and local governmental units by improving the economic impact, equity, and administrative and compliance integrity of Connecticut's State and local taxes.

Premises — Constraints

The Governor's order did not call for a complete analysis of State and local expenditures. It was, however, necessary for the Commission to estimate expenditure levels in order to design an adequate revenue system. The Commission designed a tax structure according to the premise that annual growth in State expenditures can be

held to approximately 5%. In accepting this expenditure objective the Commission made such tests of recent trends in spending as it considered necessary to substantiate the achievability of this expenditure limit. The Commission has refrained from any effort to pass judgment on the present or future service needs of State or local government in the conviction that these are matters of policy determination by the Governor and the Legislature.

Opportunity For Reform

The Commission believes the present opportunity for reform to be almost without parallel in this State and other states in recent times. Although new program needs may eventually require a State income tax, information and analysis of anticipated expenditure requirements indicate that the existing State tax structure will be sufficient to meet Connecticut's needs in the foreseeable future.

Revenue increases of 6.7% per year can be expected from existing sources, and increased expenditure needs have been projected at approximately 5% per annum before giving effect to the Commission's program. The Commission was able, therefore, to recommend the reform of the tax structure according to fundamental objectives of maximum tax equity and minimum interference with economic decision-making, keeping in mind all taxpayers and social goals. Since it was not necessary for the Commission to propose additional major taxes in order to meet rapidly increasing expenditures, the Commission could formulate a sound program for Connecticut, and, very possibly, a model for many other states to follow.

On the other hand, Connecticut residents must recognize that a continuation of the historical annual expenditure rate increase caused by the demand for new programs and increased level of State services may not only take away the present opportunity for tax reform, but will in a few years require a personal income tax. In essence, this is a continuing choice for Connecticut voters — tax reductions and reform coupled with moderate increases in existing spending, or a personal income tax to support major new programs and increased Government participation in many areas.

Organization of the Report

The Commission's programs are set forth in three separate volumes:

Volume I, *State Finance*, consists of four major parts. Parts A and B include a statement of the overall objectives of the tax structure and a fiscal and economic profile of the State. Part C examines the existing revenue structure and forecasts tax yields through Fiscal Year 1977. This part also considers present expenditure trends and forecasts expenditure levels through the same period. Accordingly, a schedule of excess revenue resulting from deducting expenditures from the yield of the present revenue system is developed. Part D describes the summary dollar impact of the Commission's program, and shows how it is financed by excess revenue. The Commission's program is, therefore, essentially self-financing. Revenue sharing and a full narrative description of the existing tax structure are reviewed in Appendices to Part C.

Volume II, *Local Government*, contains four parts, all related to local level problems. A complete review and recommendations with respect to the property tax are contained in Part A. School finance and a detailed proposal for local option equalization with projections for each town through 1985 are contained in Part B. Proposals for reform of the assessment system, including an estimate of revenues presently being lost through improper (and unlawful) underassessments, are set forth in Part C. A recommendation for a Uniform Municipal Practices Act dealing with referendum requirements, town budgets, and town financial reporting is contained in Part D.

Volume III, *Taxpayers*, is in three parts. Part A reviews State-level taxation on individuals. It evaluates the impact of the sales tax, compares it to other states, and offers an alternative to the present 7% rate. A review of the need for a personal income tax is contained in this section, and recommendations are presented against its adoption. Part A also contains the Commission program for elimination of the tax on dividends, while increasing somewhat the tax on net long-term capital gains. Part B describes the need for business tax reform and offers programs designed to stimulate business expansion, retooling, modernization of equipment, etc. — all designed to create more jobs for Connecticut workers. Part C sets forth a variety of procedural reforms designed to simplify the revenue code and appeals procedures.

This *Summary* covers the three-volume Report of the Commission. Commission views, ranging over a wide variety of complicated and inter-

related matters, can only be roughly delineated in summarization. This synopsis is no more than a capsule picture of the subjects explored by the Commission. The full and balanced expression of the Commission's findings, conclusions, and recommendations are presented in the three-volume Report.

It is important to emphasize that the programs offered are part of a total system. The various recommendations are not offered by the Commission as a selection from which parts can be chosen. Most of the recommendations are interrelated and support each other and would not be supported by the Commission as separate enactments.

The scope of the Commission Report is broad and many-faceted, but no pretense is made that this Commission's work has been completely exhaustive either in scope or depth. The subjects covered by the Commission and the depth of its study have been as broad and intensive as the available time and resources would permit.

The Commission hopes that this work will be carefully reviewed by the Legislature and Administration and public at large, and that the programs advocated can serve as a basis for new legislation in 1973 and beyond.

Tax Policy Objectives

Progress toward the achievement of a rational tax structure for the State of Connecticut can only be developed within a framework of general agreement on the goals or objectives of State-local taxation. Once such agreement has been obtained, an analytical appraisal of the present tax structure and its components against the background of these objectives will determine the need for and scope of tax reform and/or restructuring and indicate the route or routes to the attainment of the specified objectives of fiscal planning with the various components of the tax structure.

Tax policy objectives must be meaningful, substantive, and operational (i.e., based on empirical data) if they are to serve any useful purpose. Thus, for example, the meaning of the expression "equitable" or "fair" as it is used to describe a desirable feature of a tax or tax structure is too nebulous and abstract for purposes of formulating tax policy. The purpose of this statement is to define three basic objectives of Connecticut tax policy:

1. Adequacy — Yield

If the State of Connecticut and its political subdivisions are to meet the present and foreseeable public service requirements of Connecticut's people and businesses, it is obvious that their revenue systems must be adequate for the task. Adequacy however, can be achieved with varying degrees of equity or inequity, and with a tax system that imposes minimum restraints on economic growth or a system that is widely regarded as impeding such growth. Moreover, adequacy must mean something other than repeated increases in tax rates under the existing tax structure simply to meet recurrent fiscal crises.

As suggested, the goal of adequacy is achieved when the tax structure generates sufficient revenue to meet the inevitably rising costs of providing public services for a growing population in an expanding economy without frequent changes in tax rates and the adoption of new tax bases. In other words, it should be possible to finance without tax changes, the so-called "horizontal" growth in the provision of public services, because of population increases and economic growth, or increases in expenditures made necessary by rising prices. Only the introduction of significant new services, substantial increased spending for present services, or the unexpected loss of an existing revenue source should occasion the introduction of new taxes or adjustments in tax rates. Tax adjustments under these circumstances become part of the normal budget decision-making process.

Technically, tax adequacy requires that the yields of the individual components of the Connecticut tax structure respond "automatically" to the State's economic growth. That is to say the normal annual growth in tax revenue from gain in personal income throughout the State must equal or exceed the normal annual growth in the budget.

2. Equity — Neutrality

Equity in State-local taxation should be constructively defined to mean neutrality, that is, the avoidance to the fullest extent possible of unnecessary interference with the normal operations and functions of the market economy. State and local taxes should not unintentionally interfere with personal consumption patterns, personal activities, business investment decisions, and the like. Unintended interference with the market

mechanism frequently results in burdens that can be avoided. As it relates to specific tax measures, neutrality or equity implies the equal treatment of equally situated individuals or business units. Thus, the test of neutrality or equity can meaningfully and quantitatively be applied to each major component of the Connecticut State-local tax structure. In most cases, an adjustment in the direction of increased neutrality will be accompanied by an enhancement of the adequacy of the overall revenue structure.

Equity or neutrality in the tax structure as a whole is concerned with distributing or allocating the cost of State and local public services among income groups in such a pattern so as to leave unchanged the distribution of income after Federal income taxes. In short, neutrality suggests an overall State and local tax liability distribution proportional to income. Neutral tax policies attempt neither to reinforce nor to offset the distributional consequences of Federal fiscal policy.

3. Business Taxation — Benefit Principle

Business activity is everywhere a popular base for taxation, but the forms of State and local business taxes differ widely. These include levies on business profits, on business receipts, on purchases by business, and on the real and or personal property owned by the business enterprise. The reason for the widespread use of the business sector as a source of tax revenue is obvious; it is an efficient instrument for tax collections. It is, however, only an instrument—an intermediary—because the real economic burden of business taxes (and for that matter all other taxes) is borne by individuals either as consumers, income recipients, or wealth holders. Consequently, the popular notion of "ability to pay" as a rationale for business taxation has little relevance independent of the ability to pay of a business' customers, owners, employees, and landowners.

Business is, however, an important consumer and beneficiary (directly and indirectly) of State and local services. Moreover, economic resources are suboptimally allocated unless business costs and prices reflect the contribution of the public sector to the production of goods and services for private consumption. It is necessary, therefore, to identify a form (or combination of forms) of business taxation which approximates the extent to which individual businesses make use of and benefit from services provided by Connecticut State-local governments. In short, if State-local business taxation is to be justified on the basis of some generally acceptable principle, and if "ability to pay" has little meaningful application in the field of State-local business taxation, then the benefit principle is the appropriate one.

Tax policy is concerned with alternative methods of financing a given expenditure program within a framework of agreement on the goals or objectives of taxation. Simultaneous achievement of the three basic objectives proposed here is not easily accomplished. In some cases, the objectives conflict, in that movement in the direction of one goal means that other goals will be achieved less adequately. The tax structure that generates maximum encouragement to economic expansion will differ in general from the tax structure that maximizes adequacy or equity. Ultimately, a tax program will reflect appropriate compromises and trade-offs on the assignments of priorities or weights to each of the objectives. In the formulation of a rational tax program, however, components of the Connecticut tax structure which are growth-inhibiting and inadequate and inequitable should be identified and minimized or replaced with superior available alternatives.

Economic and Fiscal Profile of Connecticut (Volume I, Part B)

Study of the fiscal problems of the State of Connecticut and of its capacity for solving them properly begins with an analysis of the State's economic base. The characteristics of Connecticut's economy that are most important in determining the magnitude of demands for public services and the ultimate source of public revenues — in other words, population, employment, and income — lay the groundwork for projections of Connecticut's revenues and expenditures.

A thorough understanding of the character of Connecticut's economy and the classic economic definitions of its tax structure will assist the reader in evaluating the Commission's entire

program. The following summary of findings presents a capsule of Connecticut's economy at the end of 1972.

Economic Profile

1. Connecticut's under 18 age group is declining, presenting a potential problem of overcapacity in educational institutions.
2. The 18-44 year old segment of the working age population will increase by over 400,000 by 1985, presenting a continuing need for new jobs.
3. Manufacturing employment shows a pronounced decrease since 1968, dropping from 482,940 to 394,700 in 1972. Connecticut's employment data make it unmistakable that the State's economy is moving away from the manufacturing oriented base on which it has historically relied.
4. Government and service oriented industries registered the biggest growth as a proportion of the total employment picture.
5. Personal income growth in Connecticut in the decade 1960-70 averaged 4.5% above the national average. In the preceding 20 years, Connecticut's growth ranked third among selected industrial states.
6. However, Connecticut's 4.7% growth for 1970-71 is last among selected states, well below the national growth rate of 6.9%, and third from last nationally.
7. Retail sales have shown a steady increase in dollar volume since 1961 and as a percentage of the national retail sales, volume has been stable. In 6 Northeastern states, only Connecticut has been able to maintain or improve its retail position since 1961.
8. In 1960, Connecticut's per capita value-added by manufacturing was $1,493 — 62% above the national average. By 1970, Connecticut's $2,170 per capita value-added was only 32% above the national average. Connecticut has been unable to keep pace with the national growth in manufacturing, and other competing industrial states are moving ahead.
9. The scope of Connecticut's export industries showed virtually no change in the 20-year period 1950-70. (Manufacturing and financing services are still the only two industries with any substantial export orientation.)
10. For Connecticut manufacturing as a whole and its various components, there has occurred a gradual decline in the degree of export orientation from 1950-70.
11. The service industry has supplanted manufacturing as the most important export business in the State.
12. Expansion of export industries is at the core of Connecticut's economic growth, and Connecticut's capacity to encourage expansion and attract export industry will depend on its ability to compete with other states. Critical competitive elements will be wages, freight charges, electric power, and state taxes.
13. Connecticut cannot realistically look to manufacturing to assume the relative economic importance which it enjoyed in the past.
14. The elasticity of Connecticut's General Fund tax structure is calculated to be .9, which indicates that for every 1% growth of Connecticut's personal income, tax revenues will grow 9/10 of 1%.
15. Connecticut is classed as having a tax structure with medium elasticity.
16. An incidence study shows the State tax structure to be generally proportional and slightly regressive at either end of the income scale. The total State and local tax structure is regressive.
17. However, when expenditure incidence is considered, the total Connecticut fiscal structure becomes progressive. Also, when the impact of Federal taxation is considered, the total structure for Connecticut taxpayers is strongly progressive.
18. Tentative conclusions from the Advisory Commission on Intergovernmental Relations' study of state and local government taxes show that Connecticut's total tax effort relative to other states is below the national average. The tax effort of local government is almost exactly at the national average.

Fiscal Profile

A summary of the impact of taxation study shows: (1) the behavior of the existing tax structure in terms of revenue raising capability, how that capability might be affected through a change in tax structure, and how tax revenues are affected by the economic climate in which they function; (2) who actually bears the burden of taxation, entailing a description not of who pays taxes, but rather the actual place where the final burden of payment rests (incidence); (3) what similarities and differences there might be in

State and local government compared to the rest of the nation.

The first element in describing the revenue raising capability of Connecticut's taxes is what economists call "elasticity." Elasticity is a term describing the annual percentage growth of state tax revenues for every 1% growth of the state's economy. This technique enables one to measure the performance of taxes, collectively or individually. Personal income is the economic series most commonly relied upon by economists for elasticity studies, although Gross State Product has been used. (The presentation in Volume I, Part C, uses personal income.)

The derived elasticity permits interpretation of the State's revenue capacity. Elasticity shows the growth of taxes for every 1% growth in the State's personal income. An elasticity of 1.0 indicates growth greater than personal income; and less than 1.0 indicates growth less than that of personal income. If the coefficient exceeds 1.0, the tax is considered responsive or elastic; a coefficient of less than 1.0 designates an unresponsive or inelastic tax source; and, a 1.0 coefficient describes a proportional or unit elastic source.

The elasticity analysis of the existing Connecticut tax structure enabled the Commission to project revenue growth in Connecticut for the next 5 years. This was possible by predicting the personal income growth for Connecticut (used here to measure economic growth) over the next 5 years and then applying the elasticity to the annual economic growth.

The Commission's study shows that Connecticut's elasticity is .90 which means that for every 1% growth in the State's economy, taxes will grow, on the average, 9/10 of 1%. More simply, if Connecticut's economy grew 6% in one year, tax revenues would grow 5.4% in that same year — 90% of the 6% economic growth.

The second element under review is who actually bears the burden of taxes (tax incidence). The study of incidence provides a useful review of not only the burden of taxation by income level, but just as importantly, how each income level benefits through governmental expenditure of tax moneys (expenditure incidence). The total effect of tax burden and expenditure benefit can be combined to give a measure of the net effect, technically termed "net fiscal incidence." The thrust of the analysis of incidence is that Connecticut's State and local governments have tax and spending policies which greatly benefit lower income groups. This means that as family income decreases, the benefit derived from governmental tax and spending policies increases. Further, the incidence study shows that the Connecticut tax structure when taken as a whole and with the Federal tax structure superimposed can be classed as progressive.

Regressivity of the incidence of the State and local tax structure alone is manifestly due to the apparent regressivity of the property tax at the lower income levels. It is evident that increased reliance on this tax would lead to a further accentuation of the regressivity of the tax structure. Since the sales tax, with essential items excluded from the tax base, has a proportional incidence, continued reliance on it does not increase the regressivity of the tax structure.

The third element of tax impact is the comparison of Connecticut's tax burden with other states. The emphasis here is to broaden perspective by comparing Connecticut State and local taxation with other states from U.S. Census Bureau publications.

A measure useful for comparing tax burden is taxes per capita for each of the 50 states. In 1965-66, Connecticut ranked 13th nationally, and by 1970-71 per capita taxes grew to $533.19, ranking Connecticut 7th among all other states.

However, Connecticut ranks among the lowest taxing states when State and local taxes are considered in relation to personal income. Connecticut State and local revenue per $1,000 of personal income is $124.26 as compared to the U.S. average of $146.26. Only Ohio, New Hampshire, and Wisconsin have a lower figure than Connecticut.

Another measure of general tax burden is to analyze and compare Connecticut's relative revenue effort to other states on both a state and local level. The U.S. Advisory Commission on Intergovernmental Relations (ACIR) compiled revenue data from the 1966-67 *Census of Governments* to ascertain each state's relative revenue effort by level of government.

Connecticut's 1966-67 total revenue effort relative to other states was 93, or 7 points below the national norm for all revenue sources. The picture changes for the separate levels of government and by tax and nontax sources. Connecticut State government revenue was 87% of the national average, while local government came within 1% of the national average.

Public Finance — Revenues and Expenditures (Volume I, Part C)

Commission Findings

1. The average coefficient of elasticity for all Connecticut taxes is .9.

2. The estimate for growth in personal income in the period 1973-77 is 7.49%, the average of the prior 10 years.

3. The existing state taxes are estimated to yield an annual increase in revenue of 6.7%.

4. Total General Fund revenue, including revenue from outside sources, is projected to grow between 5% and 7%, over the forecasted period FY '73-77.

5. Recurring State expenditures are forecasted to grow at a 3.5% annual rate.

6. Special items will raise the total State expenditure growth to 5% per year — the expenditure constraint on which the Commission revenue plan is based.

7. Trends of major agencies and departments already indicate a sharp leveling off in expenditures. Predicted FY '73 expenditures for 63% of the State budget will only increase 6.6% over FY '72.

8. Excess revenues based on the present tax structure (and from other sources) will be realized in every year of the forecasted period.

Revenue Estimate FY '73-77

In order to make an intelligent fiscal plan for the future it is necessary to predict the revenues which will be raised by the existing State tax structure. Out of total General Fund revenues of $1.0 billion received in FY '72 the tax structure raised approximately $800 million. The Commission has used two approaches in making their revenue estimate. The first is the elasticity approach where the coefficient of elasticity is derived and applied to an estimate of personal income in order to predict future tax yields. The second procedure is to estimate each tax yield individually based on trends in leading economic indicators. For most non-tax sources, revenue estimates were based on growth increments established in recent years.

Table 1 shows the development of the elasticity estimate for Connecticut General Fund taxes.

The Commission also estimated revenue through 1977 based on a separate projection of taxes and other revenue sources. The summary of this estimate is shown in Table 2. This table indicates the annual percentage change expected for each of Connecticut's major taxes, after graphically reviewing monthly data from 1960. Leading economic indicators including manufacturers' orders

TABLE 1: Elasticity, Total Tax Structure, and General Fund Taxes, 1970-71

Tax	1970 - 1971 Taxes Actual	Adjusted	Percent of Total Adjusted Taxes	Average Elasticity	Weighted Elasticity
Beverage, Alcohol	23,696,586	23,696,586	3.8	.30	1.1
Cigarette	56,266,919	56,266,919	9.1	(.22)	(2.0)
Conn. Estate & Inheritance	46,587,582	46,587,582	7.5	1.47	11.0
Corporation Business	126,795,806	126,795,806	20.4	.97	19.8
Gas, Electric & Water	18,488,237	18,488,237	3.0	1.06	3.2
Gasoline & Special Fuel	21,008,143	21,008,143	3.4	.73	2.5
Insurance Cos., Dom. & Foreign — Premium	27,987,160	27,987,160	4.5	1.26	5.7
Insurance Cos., Dom. — Int. & Div.	16,663,081	16,663,081	2.7	1.67	4.5
Sales & Use	265,216,533	265,216,533	42.7	.94	40.1
Telephone Cos.	19,056,897	19,056,897	3.1	1.25	3.9
Total	621,766,944	621,766,944			89.8 = .90 Elasticity

Note: Adjusted revenue reflects June 30, 1971 rates for each of the taxes included but no attempt has been made to adjust the tax base due to legislative changes.

TABLE 2: Connecticut State General Revenues Estimated for 1973 and Projected Through 1977 Without New or Increased Taxes (General Fund and Public Service Tax Fund)

(In Thousands of Dollars)

Revenue Source	Est. 1973	Projected 1974	1975	1976	1977	Annual Percent Growth
Total General Revenue	$1,185,346	$1,263,055	$1,345,541	$1,433,658	$1,527,770	
Taxes:						
Sales Tax	444,800	480,384	518,815	560,320	605,146	+ 8%
Corporation Bus. Tax	140,000	150,000	161,788	173,922	186,966	+ 7½%
Cigarette Tax	67,500	67,000	68,000	68,000	68,000	†
Inheritance Taxes	50,000	53,000	56,000	58,000	60,000	†
Domestic Insurance Cos.	33,294	26,750*	10,628*	11,585*	12,628*	+ 9%
Out-of-State Insur. Cos.	17,339	20,000	22,200	24,642	27,353	+11%
Hosp. & Med. Serv. Cos.	4,191	4,610	5,071	5,578	6,136	+10%
Alcoholic Bev. Taxes	25,073	26,076	27,119	28,204	29 332	+ 4%
Dividends & Capital Gains	45,600	48,792	52,207	55,861	59,772	+ 7%
Admissions, Club Dues, and Cabarets	7,742	8,516	9,368	10,304	11,334	+10%
Public Service Utility Taxes (Gross Amount)	57,107	61,677	66,611	71,940	77,695	+ 8%
Gasoline, Special Fuels, Motor Carriers	27,000	28,080	29,203	30,371	31,586	+ 4%
Miscellaneous Taxes	200	200	200	200	200	†
Non-Tax Revenues:						
Licenses, Permits, Fees	26,000	28,000	32,000	33,000	34,000	†
Tuitions — Higher Education	18,500	18,600	19,000	19,000	19,000	†
Sales — Commodities and Services	19,500	20,500	23,800	25,000	27,000	†
Investment Income	2,300	4,000	6,000	7,000	7,800	†
Fines, Penalties, Forfeitures, Escheats	700	800	1,000	1,000	1,000	†
Rents	1,000	1,000	2,000	2,000	2,000	†
Miscellaneous Receipts	17,000	18,000	22,000	24,000	24,000	†
Transfer — Comm. on Special Revenue	16,000	17,000	19,000	19,000	19,000	†
Transfer From Other Funds	3,000	4,000	6,000	6,000	6,000	†
Federal Aid:						
Welfare and Other Programs	140,000	150,870	161,531	172,731	134,822	+ 7%
Revenue Sharing	22,000	24,700	26,000	26,000	27,000	†

*Decrease due to partial repeal of taxes on domestic insurance companies, already scheduled by law.
†Estimates after 1973 are not based strictly on a percent growth factor.
Source: Commission estimates.

for durable goods, corporate profits after taxes, and the price index for 500 common stocks provided valuable background for updating the tax estimates through Fiscal 1973. The present economic upturn shows recovery from the 1971 recession, and warranted increasing several revenue estimates above the level originally forecast for Fiscal 1973. However, more moderate growth rates are expected in most cases for the years FY '74-77, as is usually the pattern following recovery from an economic recession.

Table 2 projects non-tax revenues (including Federal aid) which account for about 24% of the total $1.185 million expected in Fiscal '73. It was noted that many of the non-tax revenue sources do not have the growth potential of most taxes. As a result, the growth increment applied for the years 1974-77 are those found reasonably consistent with amounts registered since 1968.

Federal aid, chiefly reimbursement for welfare expenditures, is the largest single non-tax revenue source ($140 million expected in Fiscal 1973), and is expected to grow by 7% annually after Fiscal 1973. At present, State welfare payments are increasing by about 14% annually, but program changes outlined in the expenditure analysis are expected to reduce this growth significantly.

In other areas, higher education tuitions show little growth from $18.5 million estimated in Fiscal 1973, since a leveling off of enrollments is forecast. Also, transfers from the Commission on Special Revenue (from the Lottery and other gaming activities) show little change from the $16.4 million estimated for 1973, because of the difficulty in gauging the success of the State's venture into this area.

Table 3 shows the total General Fund revenue adapted from Table 2 for the years 1973 through 1977. Table 3 reflects adjustments made to Table 2 so that only revenues from State sources are used to compute the annual growth rate for revenues. Table 3 shows revenues from State sources only to increase by 6.3 to 6.6% Revenues from State sources only is arrived at by deducting Federal revenue sharing and Federal aid for welfare.

The "Annual Growth Rate" data in Table 3 now gives the Commission two separate measures of revenue yield over the next five years. The analysis of the elasticity of the State tax structure revealed that an elasticity of .90 and personal income growth at 7.49% annually would yield an average annual revenue growth of 6.7%. This percentage revenue growth taken from the elasticity study is entered as the last line item on Table 3 for comparison with the other estimated data. It is quite clear that each approach gives similar results. The close approximation between the "Annual Growth Rate" derived from projected revenues and from the elasticity coefficient gives the Commission sufficient justification for projecting revenues at an annual increase of 6.7%.

TABLE 3: Annual Growth Rate Projected for General Current Revenues From State Sources Only
(In Thousands of Dollars)

	Est. 1973	Projected 1974	1975	1976	1977
Projected General Revenues	$1,185,346	$1,263,055	$1,345,541	$1,433,658	$1,527,770
Deduct: Federal Aid	(162,000)	(175,570)	(187,531)	(198,731)	(211,822)
Total—from State sources only	$1,023,346	$1,087,485	$1,158,010	$1,234,927	$1,315,948
Annual Growth Rate		+6.3%	+6.5%	+6.6%	+6.6%
Annual Growth Rate based on (1) an elasticity of .90 for the State revenue structure, and (2) an annual growth rate for Connecticut Personal Income of 7.49%		+6.7%	+6.7%	+6.7%	+6.7%

Source: Based on Tables C-3 and C-4, Volume I.

Expenditure Estimates FY '73-77

In recent years Connecticut's State budget and accumulated deficit of $244 million have stemmed largely from expenditure increases varying from 12 to 25% annually—which were far larger than the normal growth of revenues (averaging 5 to 7% annually). As a result, tax increases and new taxes were continually needed in order for revenues just to catch up with the runaway pace of State spending. Table 4 and Chart 1 show the projected growth of State general spending since 1960, and note those years when major tax increases were needed to boost revenue growth up to the level of expenditures.

TABLE 4: Growth of Connecticut State General Revenues and Expenditures: From 1960

(General Fund, Public Service Tax Fund, and Bond Retirement Fund)

	General Revenues		General Expenditures	
	Amount (millions)	Percent Increase	Amount (millions)	Percent Increase
1960	$ 227		$ 224	
1961	234	3%	240	7%
1962	284*	21	282	18
1963	313	10	299	6
1964	340	9	327	9
1965	380	12	350	7
1966	419*	10	413	18
1967	444	6	448	8
1968	490	10	558	25
1969	539	10	662	19
1970	734*	36	743	12
1971	813	11	896	21
1972	1,017**	25	1,001	12
1973	1,185 est.	17	1,144 est.	14
Projected:				
1974	1,263	7	1,205	5
1975	1,346	7	1,270	5
1976	1,434	7	1,333	5
1977	1,528	7	1,400	5

Projected Surplus Each Year:

	(millions)
1972	$ 12**
1973	41
1974	58
1975	76
1976	101
1977	128

*Revenue growth partly due to tax increases.
**After adjustment of $17 million for refunds of capital gains tax overpayments.

Source: Data Series, *Connecticut State Revenues, Expenditures, Employees*, Connecticut Public Expenditure Council (July, 1970); Projections by the Commission.

The Commission has projected expenditures to rise at an annual rate of 5% from FY '73-77 before putting into effect the Commission's program. The Commission is fully aware of the fact that in the past decade State government expenditures have never been held to such a low level. However, the Commission believes the philosophy of the Administration and the fiscal controls which have been developed to analyze expenditures and prevent budget overruns are capable of producing this result. The Commission believes that the productivity of the State organization is improving and can continue to improve thereby reducing operating costs further. The annual budget increase maximum limit of 5% is not a totally austere "no growth in programs" budget. With allocation of priorities and good fiscal controls it should be possible to fund a variety of worthwhile programs other than those being proposed by the Commission.

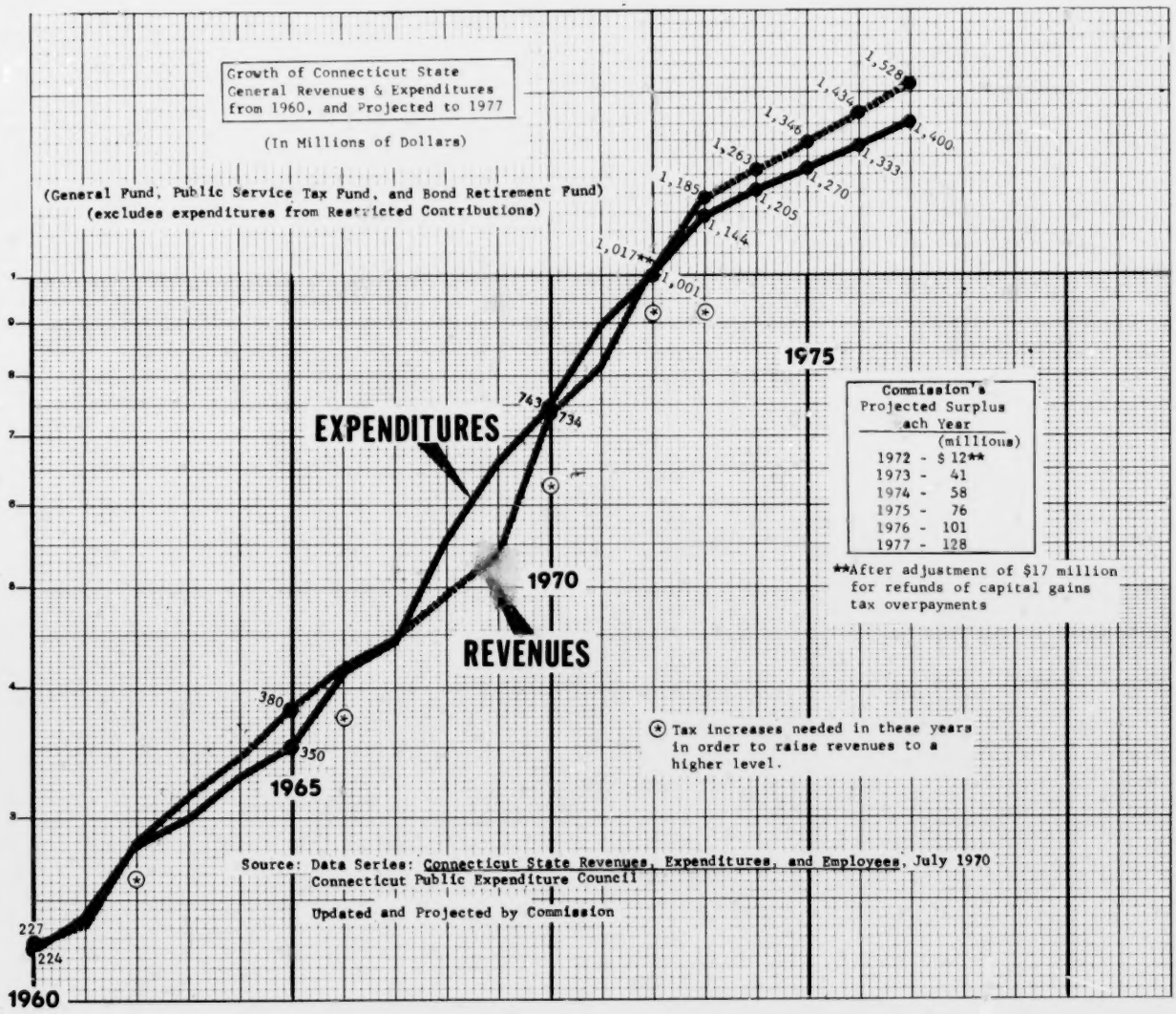
To evaluate feasibility of attainment of a 5% expenditure growth, the Commission has divided expenditures into two broad categories: fixed expenditures and general expenditures (as shown in Table 5). The fixed expenditures are those programs which are the result of existing legislation and which require additional funding over the forecasted period or elements of cost which are inherent in administering State government and consequently are highly resistant to change.

The other category of general expenditures is the balance of the elements of cost which are felt to be proceeding according to well-developed plans and which consequently are more predictable and controllable.

A. Fixed Expenditures

1. The State compensation plan has programmed annual salary increments for about 26,000 State employees paid from the General Fund. These increments will cost an estimated $5.1 million by 1974, rising to a cumulative total of $26.5 million by 1977.
2. State law provides that future budgets, starting in FY '74, pay an increasing percentage of the 40-year amortization of unfunded liabilities in the State Employees'

CHART 1: Growth of Connecticut State General Revenues and Expenditures from 1960, and Projected to 1977



Retirement Fund. This statutory commitment will increase State general spending by $4-5 million annually.

3. As the University of Connecticut's Health Center nears completion, additional facilities will be opened during the next few years, and operating costs will rise.
4. The State will be paying increased amounts to towns as reimbursements for the gradual repeal of taxes on inventories of manufacturers and merchants. The local tax exemption on manufacturers' inventories will rise from 70% in 1973 to 100% in 1977. Merchants' inventories are being phased out at a rate of one-twelfth per year beginning in 1971. Also, additional homeowners over age 65 are expected to seek a property tax freeze, requiring the State to reimburse towns for the revenue loss. Rough estimates for all

TABLE 5: Projection of Connecticut State General Expenditures Through 1977

(In Thousands of Dollars)

	Est. 1973	Projected 1974	1975	1976	1977
Fixed Elements of Cost:					
(1) Annual salary increments for State employees	.....	$ 5,100	12,100	19,300	26,500
(2) Funding State employees' retirement	.....	5,000	8,500	12,000	16,000
(3) UConn Health Center — expansion	.....	4,000	7,000	8,000	9,000
(4) Tax relief grants to towns for elderly and mfg. and merch. inventory tax losses	.....	4,200	9,900	14,600	18,000
(5) Debt Service—current liabilities	.....	13,000	9,400	5,100	900
(6) Debt Service—for new projects	.....	3,500	8,300	13,100	19,000
General Elements of Cost:					
Annual growth averaging 3½% from 1973 base year	$1,144,000	$1,170,200	$1,214,800	$1,260,900	$1,310,600
Total General Fund Budget	$1,144,000	$1,205,000	$1,270,000	$1,333,000	$1,400,000
Percent Growth From Previous Year	.....	+5.3%	+5.4%	+5.0%	+5.0%

Source: Commission estimates.

of these payments to towns indicate the need of $4 million more in the 1974 budget, with 1977 payments being $18 million or 100% above the 1973 budgeted level of $18 million.

5. The present State General Fund Debt Retirement Schedule reflects debt service payments that will rise about $13 million in FY '74 but in subsequent years there will be a reduction as existing bonds mature and are paid off. In FY '72 the Legislature adopted a program to pay off the deficit which, as of June 30, 1971, totalled $244 million. The funding is to take place over a 10-year period at the rate of $24.4 million per year. The FY '73 period includes the first payment, which is included in the projected expenditure levels of Table 5 and Chart 1. This debt payment is also routinely included in the expenditure estimates for each of the years through 1977.

6. Additional bonds may be issued to finance new capital projects. There is presently a large backlog of projects which have been authorized by the Legislature but for which bonds have not been issued. Over $750,000,000 of approved projects are in this category. The Administration has adopted a philosophy of not allowing debt service to increase disproportionately and consequently is holding these projects until repayments on existing maturities have been made or until revenues are available. This category of "fixed expenditures" was based on the assumption that a portion of the new projects will be funded in the forecasted period.

B. General Expenditures

Other expenditures aside from the "fixed expenditures" are defined as "general expenditures." The Commission understands the Administration philosophy is to control this

category to a maximum increase of 3.5% annually. Budget requests for FY '74 are presently being submitted by agency heads according to this format. The Commission believes from its own analysis of departmental budgets that this level of general increase is attainable. The total of fixed expenditures and the prescribed increase in general expenditures amounting to approximately 5% are shown in Table 5. This forecasted level has been applied to an early estimate of Fiscal Year 1973 spending levels, based on Administration objectives in controlling overall expenditures for that fiscal year. The resulting expenditure projection is shown on Table 5 and Chart 1. The projection of excess revenue in Fiscal Years 1973-77 as shown in Table 4 is the result of the expansion of the tax base at approximately 6.7% plus other non-tax revenue.

If State revenues, from all sources, grow at an annual rate of 6.6%, and expenditure growth can be limited to an annual growth of 5%, maximum excess revenue will continue to develop as outlined in Chart 1 and Table 4. Excess revenues are expected to range from the $12 million generated in 1972 (after repayment of $17 million in capital gains tax overpayments) to $128 million by FY '77. It is from these excess revenues that the Commission's program can be financed.

Local Government — Property Tax Reform (Volume II, Part A)

For the individual taxpayer in Connecticut, the property tax bill is usually the most obvious and largest component of the total State and local tax. At the same time, the property tax is the single largest source of funds for Connecticut government. In 1971-72, property tax collections were over $900 million, or 49% of all State and local tax collections. Even when Federal grants and payments are added to State and local tax revenues, the property tax accounts for 37% of the total funds available to finance State and local government.

As significant as the property tax is in the overall State tax structure, it is even more important at the local government level. The property tax has been and continues to be the major revenue source of municipalities in Connecticut and throughout the United States. The property tax is virtually the only source of municipal tax revenues in Connecticut, and it accounts for about 80% of all funds available to local governments.

Like all taxes, the property tax has been subject to criticism. Some argue that current rates are too high, and others say that the tax is regressive. Some courts, meanwhile, have held that the existing system of school finance is unconstitutional, and critics have argued that the local property tax cannot remain the major source of educational finance if we are to provide equal educational opportunity in our public schools. In examining the property tax, the Commission sought to evaluate whether continued reliance on it is necessary, and, if so, what measures might alleviate some of the serious shortcomings.

As in all states, property tax collections in Connecticut have served as the major source of local finance during this century (and before), and property tax revenues have increased rapidly. Property tax revenues in 1971, for example, were almost 10 times as great as they were 25 years ago—up from just under $100 million in 1946 to over $950 million. Half of the ten-fold increase can be attributed to an increasing tax base—taxable property increased from approximately $4 billion to over $18 billion—and the other half is represented by a doubling in the average mill rate (from approximately 26 mills to 51 mills).

Except for certain tax-exempt organizations, the tax is generally levied on real property and automotive equipment of individuals and personal property (equipment, inventories, etc.) and real property of businesses.

The first issue raised by analysts is who really pays the property tax. Although no authoritative answer has yet been given, most economists agree that the property tax is generally shifted from owners to consumers when the tax is levied on business property and on dwelling units that are rented. The tax on owner-occupied dwellings and vacant land is paid by the owner. Thus, in the long run, it appears that the property tax ultimately falls on individuals.

One of the most common criticisms of the property tax is that it is a regressive tax. Careful study by many economists has led to the conclusion that this is probably true in general when the property tax is viewed in isolation. However, the Commission was persuaded that the property tax is not significantly regressive when viewed in the context of the uses of revenues from the property tax and in the context of the overall tax system. The proper method of evaluating the tax system in Connecticut is to focus on the State and local tax system as a whole. In doing so, the Commission found that the net incidence of State and local taxes and expenditures was almost proportional.

In order to evaluate recommendations that the property tax be replaced, the Commission considered alternative taxes that could be levied and what rates would be required. It was found that the only tax that could reasonably be expected to produce sufficient revenues would be a personal income tax. To replace the property tax in Connecticut in its entirety, a personal income tax equal to approximately 40% of the Federal income tax would be required.

Another argument concerning the property tax is that it is too high. Data comparing Connecticut to the rest of the nation are difficult to interpret. The State ranks fourth highest in the country in property taxes per capita; yet property taxes as a percentage of personal income in the State are low compared to other states.

Overall, it was concluded that comparative data did not indicate property taxes were too high in general. Studies and views of the housing industry, however, indicate that investment in rental housing is significantly discouraged when the property tax burden reaches approximately 25% of rental receipts. This occurs for most rental units when the local property tax rate moves significantly above 30 to 35 mills or so (adjusted for full current market value rather than fractional assessment ratios). Such a level has been reached in most of Connecticut's cities and some of the smaller towns; in the former, there is every indication that tax rates will continue to climb. The Commission decided that, although no conclusions could be drawn that the average property tax was excessive, the very high property tax rates found in some localities should be reduced to a level nearer the State average.

In addition to the above items, the Commission also studied various proposals for property tax reform which have been initiated or discussed elsewhere. In general, it was found that proposals such as differential assessment, site value taxation, and other sweeping changes either were not suitable for Connecticut or had not been explored in enough detail to indicate what benefits and problems might result.

Recommendations

1. That a "circuit breaker" be enacted to grant relief up to $500 for property owners and renters over 65 years of age, depending on personal income, and which would gradually replace the existing Section 12-129b and related sections.

2. That the tax on further acquisitions of personal property be eliminated except for motor vehicles, rolling stock of contractors, aircraft, and the personal property of public service companies. The tax revenues from existing personal property will decline over a 10-year period because of lower values being reported as the cost basis is lowered through depreciation.

3. That grants to local governments in lieu of taxes on manufacturers' and merchants' inventories be eliminated simultaneously with the enactment of Commission proposals which would increase local government revenues.

4. That no attempt should be made to tax institutions and other tax-exempt properties at the full rates imposed by towns and cities, but that tax-exempt institutions should compensate the host towns for some of the services which they use; and that Federal and State properties should be excluded from service charges; Section 12-14a of the Connecticut General Statutes (reimbursement to towns for State-owned property) should be fully funded.

5. That current block grant programs to local governments under Sections 8-159a and 10-266k be retained, and that the funding of these sections be expanded by $5 million each in FY '74 and by a total of $15 million each in FY '76 and '77; and further, that a $10 million State fund be established and apportioned to qualifying towns of the State based on valuations of non-governmental tax-exempt property weighted by a factor which is the net grand list per square mile.

6. That towns examine their fiscal programs in light of the new revenues generated by these proposals and the recommendations on school and assessment reform in order to apply increased revenues to the reduction of property taxes whenever possible.

Discussion

As noted above, the Commission found that fundamental changes in the property tax system were inappropriate in Connecticut at this time. Having made the decision to recommend continuation of the local property tax, the Commission agreed that substantial changes would be required to overcome its inequities and inadequacies.

Elderly Tax Relief — "Circuit Breaker"

The Commission recommends Connecticut adopt a circuit breaker which would grant direct relief up to $500 per year for qualified elderly households. To qualify for property tax relief, the head of the household must be 65 years of age or older, and the total income of the household from all sources, including Social Security, must be less than $7,500 per year (in 1972 dollars).

Under the plan, a homeowner would be entitled to direct relief in the form of a credit on his property tax bill if and to the extent that his actual tax bill exceeded 5% of his income. The maximum limit of the credit would be $500 for those in the lowest income bracket. The State would reimburse the municipalities by the amount of the tax credits. As an alternative, the homeowner could be required to pay the full amount to the municipality and apply directly to the State for the credit.

The dollar amount of relief would decline as the household income increased as follows:

Where the household income is	The maximum credit would be
$3,000	$500
3,500	450
4,000	400
4,500	350
5,000	300
5,500	250
6,000	200
6,500	150
7,000	100
7,500	50
7,500+	0

Under the plan, a renter would be entitled to relief in the form of a cash payment from the State to the extent that 20% of his annual gross rent (including utilities) exceeds 5% of his income. The maximum limit of cash payments would be $500 for those in the lowest income bracket. The schedule of cash payments exactly mirrors the schedule of maximum credits listed above.

The tax credits and cash payments would be made upon presentation to the town assessor of proof of age, household income, tax bill or rent paid, and other documentation as may be necessary.

It is not possible to provide a detailed estimate of the cost of the recommended circuit breaker. However, from the data available, the following estimates have been made:

Relief for Elderly Renters—	1.9 - 5.4 million dollars
Relief for Elderly Homeowners—	12.3 - 15.0 million dollars
Administration—	.1 - .5 million dollars
Total	14.3 - 20.9 million dollars

Elimination of the Personal Property Tax

The recommendation — elimination of the personal property tax on further acquisitions of most classes of personal property—is a major change in the property tax structure. Because of the competitive circumstances in which the State's businesses find themselves, it is unlikely that Connecticut businesses can export much of the personal property tax. It is further unlikely that very much of the tax is shifted domestically to

Connecticut consumers; Connecticut consumers have ready access to non-Connecticut products from firms located in non-personal property tax states. The Commission concluded that the personal property tax is extremely difficult to administer equitably. The tax is a major deterrent to business and industrial investment in the State.

Accordingly, the Commission recommends the repeal of the tax on post-1973 acquisitions of personal property other than motor vehicles, aircraft, personal property of public service companies (public utilities), and the inventories which are being removed from the tax rolls under current law. The result of this recommendation would be the phasing out of the tax on affected categories of presently-owned personal property as such property is depreciated. The Commission estimates that the bulk of this phase-out should be completed in 10 years. A reduction of revenue to each town would occur not by virtue of the removal of any existing property from its grand list, but because of the fact that no new items would be added each year. The Commission estimates that there would be approximately $150 million in assessed value of new acquisitions each year which would not be placed on the personal property grand list as a result of its recommendations.

This proposal would result in a reduction in the State's grand list of over $1.5 billion over a 10-year period, or less than 1% of the 1970 net grand list per year. The following shows the statewide breakdown of affected property, by class.

Total Personal Property on Which Tax Would Be Phased Out Under Commission Proposal (1970 List)

Machinery*	$1,014 million
Furniture	302
Boats	44
Farm machinery, tools	6
Animals, produce	3
Other	162
Total	$1,531 million

Reduction in each of 10 years: $153 million

Percent of total net list to be phased out under this program: Total 8%
Yearly .8%

* This category contains some machinery belonging to utilities, and may thus be slightly overstated.

Table 6 shows the effect of the Commission proposal on the net grand lists of localities with over $20 million in affected property. These areas of concentrated commerce and industry would generally lose between 1 and 2% of their 1970 net list each year for 10 years under the Commission proposal.

TABLE 6: Effect of Personal Property Tax Phase-Out Proposal on 1970 Net Grand Lists of Localities with More than $20 Million in Affected Property

	Personal Property to be phased out* ($ millions)	% of 1970 Net Grand List to be phased out each year for 10 years†	Average Annual Revenue Reductions Due to phase out 1970 Rate ($ millions)†
Hartford	144	1.6	1.1
Bridgeport	108	1.8	.8
New Haven	79	1.3	.6
Stamford	68	.8	.4
Milford	67	1.5	.3
East Hartford	64	1.3	.3
Waterbury	53	1.2	.4
Norwalk	51	1.1	.3
Greenwich	48	.3	.1
Middletown	45	2.1	.2
Stratford	32	1.0	.2
New Britain	29	1.0	.2
North Haven	28	1.6	.1
Danbury	25	.9	.1
Bristol	24	1.0	.2
Montville	21	2.2	.1

Source: Calculated from Public Doc. 48, pp. 50-81.

*In some localities, these totals may contain property belonging to uitilities, and may thus be slightly overstated.

†These yearly amounts will vary, depending on depreciation rates.

Elimination of Grants in Lieu of Taxes for Loss of Revenue Due to Inventory Phase-Out Programs

The Commission's recommendation that most of the personal property tax be phased out is consistent with the current program of phasing out taxation of manufacturers' and mechants' inventories.

Partial reimbursement of these foregone revenues is provided by Sec. 12-24a, which provides for the following distributions to localities based on the 1964 collections on manufacturers' inventories, which totaled approximately $18 million:

1970: 40% of 1964 collections
1971: 50%
1972: 60%
1973: 70%

Revenue foregone with respect to merchants inventories are based on 1967 collections which totaled $14 million. Inventories are phasing off the tax rolls at the rate of 1/12 each year for 1971 to 1982.

The Commission has concluded that these reimbursement programs are an inflexible and inappropriate method of relieving the hardships caused by the removal of some classes of property from local grand lists. They do not adequately reflect the fiscal needs of the localities, and their distribution formulas quickly become obsolete. Pro rata reimbursement does not recognize the potential gain in real property base resulting from the economic stimulus which the tax relief provides. For these reasons, the Commission recommends the repeal of the inventory tax reimbursement programs, effective in FY '76.

The Commission recognized the fact that these recommendations taken alone result in significant revenue losses to the localities. However, the Commission has concluded that, overall, these losses will be compensated for by other gains. An immediate gain is the revenues which would accrue to localities under the Commission's proposed program of aid to cities, set forth in detail below. This program provides for increased block grants and for State payments based on foregone revenue from private tax-exempt property. Under this proposal, an additional $20 million would be distributed to localities in FY '74 and FY '75. This amount would be increased to $40 million starting in FY '76, concurrent with the proposed repeal of the inventory tax reimbursement provisions.

Table 7 shows the net effect of these recommendations in major localities in the State, through FY '77. It shows the revenue which would be lost due to the repeal of the personal property tax and the present reimbursement programs. It also shows the projected gains from increased block grants, payments for tax-exempt private property, and increased payments on State property.

The Commission believes that any net losses shown in this table would be more than offset by other gains, including the following:

1. New industrial and commercial development which will be encouraged by the repeal of the personal property tax.

2. The assessment reforms proposed by the Commission which will result in significant additional revenue coming from identification of underassessed property in accordance with the existing statutes by FY '75 and thereafter.

3. An easing in many localities of their educational finance burdens, under the plan proposed in Part B, Volume II.

Tax-Exempt Property — Service Charges

The recommendation — as to treatment of tax-exempt property — recognizes that tax-exempt institutions merit continuing support from State and local government and that exemption from property taxes is an appropriate method of aiding such entities. However, service charges are recommended because such institutions do utilize municipal services, and permitting localities to levy service charges appears to be a way to apportion the direct costs of these institutions. As a rough estimate, if towns and cities charged tax-exempt properties the full cost of providing sewerage and sanitation services to them, they would be able to recover a total of approximately $3.5 million.

Because government properties cannot be taxed, the Commission further recommends additional State aid to localities through the existing reimbursement for State-owned property. The basic problem of tax-exempt properties without such reimbursement is that these institutions, which often serve as many or more persons living outside the host town as in that town, represent costs for services and losses of potential tax base which ultimately increase tax bills for the residents of the host town. The Commission proposals are designed to share more equitably the cost of supporting these needed institutions.

Section 12-19a of the Connecticut General Statutes provides for State reimbursement to towns for tax-exempt property owned by the State. The Commission recommends the Legislature appropriate an additional $1.8 million per year to carry out the terms of this section. The total funding under this category would then total $3.6 million.

Aid to Cities — Compensating Programs

The distress of the cities and their inability to cope with problems not of their own making have persuaded the Commission to advocate a special program of relief. Core cities cannot generate

TABLE 7: Net Effect of Personal Property Tax and Aid to Cities Recommendations on Major Localities, FY '74-77

(Thousands of Dollars)

	Hartford	Bridge-port	New Haven	Stamford	Milford	East Hartford	Waterbury	Norwalk	Greenwich	Middle-town	Stratford	New Britain	North Haven	Danbury	Bristol	Montville
FY '74																
Revenue Lost: Personal																
Property Tax Repeal	-1152	-864	-632	-408	-268	-320	-371	-332	-96	-225	-160	-232	-140	-138	-156	-84
Revenue Gained:																
Block Grant	1540	1260	1175	435	125	190	535	275	100	110	130	475	30	155	145	18
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	5169	2823	4514	483	159	193	913	296	382	270	135	1287	31	202	146	19
Net Gain or Loss	4017	1959	3882	75	-109	-127	542	-36	286	45	-25	1055	-109	64	-10	-65
FY '75																
Revenue Lost: Personal																
Property Tax Repeal	-2304	-1728	-1264	-816	-536	-640	-742	-664	-192	-450	-320	-464	-280	-276	-312	-168
Revenue Gained:																
Block Grant	1540	1260	1175	435	125	190	535	275	100	110	130	475	30	155	145	18
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	5169	2823	4514	483	159	193	913	296	382	270	135	1287	31	202	146	19
Net Gain or Loss	2865	1095	3250	-333	-377	-447	171	-368	190	-180	-185	823	-249	-74	-166	-149
FY '76																
Revenue Lost: Personal																
Property Tax Repeal	-3459	-2592	-1896	-1224	-804	-960	-1113	-996	-288	-675	-480	-696	-420	-414	-468	-252
Manufact. Inventory Repeal	-1084	-2382	-1072	-721	-308	-893	-1168	-630	-114	-138	-217	-799	-305	-420	-482	-36
Commer. Inventory Repeal	-1066	-604	-718	-413	-231	-448	-256	-221	-106	-93	-108	-218	-49	-173	-99	-10
Total	-5609	-5578	-3686	-2358	-1343	-2299	-2537	-1847	-508	-906	-805	-1713	-774	-834	-1049	-298
Revenue Gained:																
Block Grant	4620	3780	3525	1305	375	570	1605	825	300	330	390	1425	90	465	435	54
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	8249	5343	6864	1353	409	573	1983	846	582	490	395	1951	91	512	436	55
Net Gain or Loss	2640	-235	3178	-1005	-934	-1726	-554	-1001	74	-416	-410	238	-683	-322	-613	-243
FY '77																
Revenue Lost: Personal																
Property Tax Repeal	-4608	-3456	-2528	-1432	-1072	-1280	-1484	-1328	-384	-900	-640	-928	-560	-552	-624	-336
Manufact. Inventory Repeal	-1084	-2383	-1073	-721	-307	-893	-1168	-630	-114	-138	-217	-799	-305	-420	-482	-36
Commer. Inventory Repeal	-1244	-704	-837	-481	-270	-520	-299	-258	-123	-109	-125	-254	-57	-202	-115	-12
Total	-6936	-6543	-4438	-2634	-1649	-2693	-2951	-2216	-621	-1147	-983	-1981	-922	-1174	-1221	-384
Revenue Gained:																
Block Grant	4620	3780	3525	1305	375	570	1605	825	300	330	390	1425	90	465	435	54
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	8249	5343	6864	1353	409	573	1983	846	582	490	395	1951	91	512	436	55
Net Gain or Loss	1313	-1200	2426	-1281	-1240	-2120	-968	-1370	-39	-657	-588	-30	-831	-662	-785	-329

revenues from property taxes sufficient to cope with their burdens without raising property taxes to an exorbitant level. The concern of the Commission is to ease the property tax burden on particular taxpayers and to identify alternative sources of revenue for cities. The relief program for cities has as its specific purpose a reduction of mill rates in cities, and not an increase in services.

The program consists of two parts: (1) an increase in block grants which are related to demographic and economic conditions found primarily in core cities; and (2) payments to cities with high concentrations of non-governmental tax-exempt property. In recognition of the special problems of cities, the General Assembly enacted in 1969 a multifaceted system of block grants, called "property tax relief grants" in the 1972 appropriation act. Every city and town in the State receives financial aid under this program according to distribution formulas which favor localities with special problems and burdens. The localities may use this money as they choose; it is, in effect, a State revenue sharing program.

The block grant distribution formula has several advantages. It is related to municipal costs and needs. It is based upon identifiable and objective economic and demographic data. These data are also easily accessible, thus entailing minimal administrative cost.

The Commission recommends the continuation of existing block grant programs at a funding level of an additional $5 million for each program in FY '74 and FY '75, and an additional $15 million each in FY '76 and thereafter.

Table 8 shows the distribution of these funds for localities receiving more than 1%.

The second program of relief for the cities is based on the presence of private tax-exempt property. The Commission proposes State payment to municipalities to provide revenue which otherwise would be lost as a result of concentrations of non-governmental tax-exempt property. The Commission recommends the creation of a State fund of $10 million to be apportioned to municipalities as reimbursement for revenue foregone because of large concentrations of non-governmental tax-exempt property.

Generally speaking, the larger cities are impacted with heavier shares of tax-exempt property than the smaller cities and towns. Partial reimbursement for tax-exempt property, while affecting a wide spectrum of Connecticut's cities and towns, will benefit the larger cities most.

TABLE 8: Distributions to Localities Receiving More than 1% of Either 8-159a or 10-266k Block Grant Funds (1972)

	8-159a (% of State Total)	10-266k) (% of State Total)
Ansonia	1.1	.7
Bridgeport	14.9	10.3
Bristol	1.7	1.2
Danbury	1.5	1.6
East Hartford	2.5	1.3
Greenwich	1.2	.8
Groton	.4	1.6
Hamden	1.2	.9
Hartford	14.5	16.3
Manchester	1.3	1.1
Meriden	2.0	2.0
Milford	1.5	1.0
Middletown	1.0	1.2
New Britain	5.9	3.6
New Haven	10.7	12.8
New London	1.8	1.6
Norwalk	2.8	2.7
Norwich	1.3	1.8
Stamford	5.2	3.5
Stratford	1.8	.8
Waterbury	5.1	5.6
West Hartford	1.7	.8
West Haven	2.8	1.7

Source: Calculated from data provided by Office of the State Controller, and State Department of Education.

The reimbursement plan would operate as follows:

1. The State is to set aside a sum of money to be divided among the State's qualifying cities and towns. The Commission recommends that $10 million be allocated for this purpose.

2. A city or town qualifies if its share of non-governmental tax-exempt property as a percentage of its total property assessments (gross grand list) exceeds the average for all towns in the State, and if its weighted non-governmental

tax-exempt property assessments (see 3 below) total $50 million or more.

3. Each qualifying town's total of private tax-exempt property assessments (at full value) is weighted by a factor which is that town's net grand list per square mile. This density factor indicates a general value of property in the towns and thus approximates the relative revenues foregone due to the presence of tax-exempt institutions.

4. The fund is distributed according to each town's weighted exempt assessment as a percent of the total of every qualifying town's exempt assessments.

At present the allocation of the fund would be to the following towns:

Percentage Shares for Cities Qualifying for Tax Relief Based on Non-Governmental Tax-Exempt Property

Hartford	33.43%
New Haven	30.56%
Bridgeport	15.05%
New London	6.03%
Waterbury	3.39%
Norwich	0.52%
New Britain	4.14%
Fairfield	3.05%
Middletown	1.05%
Greenwich	2.79%
	100%

Application of Funds — Rollback of Property Tax Rates

The last recommendation—that localities attempt to use the new funds generated by the Commission program to reduce property taxes—recognizes that the purposes of much of the reform, especially in the central cities, is to reduce property tax rates now substantially above the State average to a more tolerable level near the average. The combined impact of the proposals presented in Volume II could be to bring most of the very high tax rates more nearly into line with the State average and to reduce the average rates somewhat. This is the intent of the new program, and it is strongly urged that municipalities make every effort to reduce taxes with the new revenues as far as possible.

Local Government — School Finance Reform (Volume II, Part B)

Public elementary and secondary education is the single largest government service supported by the taxpayers of Connecticut. In 1970-71, the 169 towns spent $758 million on local public schools, an average of over $1100 per pupil for more than 665,000 students. Most of this money —$485 million or 64%—was raised by the local property tax at the town level, while State assistance contributed 33% and Federal aid represented just under 3%.

Educational expenditures represent approximately two-thirds of the local budget in most towns and approximately half the annual budget in the larger cities. Since the local property tax is the only major source of tax revenue for local government in Connecticut, and since the school system represents such a large portion of local budgets, it can be said that the property tax is, in large part, the school tax. School expenditures and the property tax are so intertwined that they must be seen as one system in order to consider equal educational opportunity and the fundamental problems and inequities of the property tax.

Considerable national attention has recently been focused on the property tax as the primary source of school funds (which it is in all but one state). A recent California Supreme Court decision and a Texas decision now before the U.S. Supreme Court have both held unconstitutional the local property tax as administered in those states (with results not significantly different than in Connecticut). These court rulings and a significant number of critical studies find that, since the ability of a school district to raise funds for education determines its ability to finance quality education, where the ability to raise

funds depends upon local property values, educational opportunity becomes a matter of community and family wealth.

The essence of school finance inequity has often been described in terms of tax rates and school expenditures for equivalent families in similar circumstances. A family in one school district may pay a property tax 50% or 100% higher than a family in another school district, yet the family paying more taxes can find that the children attend a school where far less money—in some cases, half as much—is available for the student's education. This situation exists in and has been documented for Connecticut. Furthermore, unlike some other states, there is presently no equalization program in Connecticut to guarantee that a certain tax rate will raise a minimum amount per pupil; existing State and Federal aid programs do not correct the inequities.

Recommendations

1. That the local public school system be preserved and strengthened, with decision-making as to educational expenditure remaining a local responsibility; the towns will continue to choose a property tax rate and administer the tax as the major source of funds for local elementary and secondary education.

2. That a State Equal Educational Opportunity Fund ("SEEOF") be established to collect all additional property tax revenue resulting from growth in tax base in the towns and that SEEOF return these revenues each year to towns as follows:

a.) Any town which collects more in proportion to its student population and tax rate (i.e., has a greater property tax revenue yield per mill per student) than the State average would receive $1 per mill per student more each year until the State average catches up to the sum of the yield in the current year plus that growth in yield of $1 every year.

b.) Any town whose yield per mill per student is less than the State average would receive the $1 per mill per student increment plus additional funds tied to mill rates and allocated by increasing fractions of the differences between actual per mill per student collections and the State average, such fractions increasing to 100% as rapidly as SEEOF revenues permit.

c.) In the long run, the combination of revenues retained and additional payments to the towns from SEEOF would establish the same tax-rate-to-revenue relationship for all towns (it might, for example, be that each mill of the tax rate can be counted on to produce $100 per student) and the current shortfall in some towns would, in effect, be made up by sharing a portion of tax revenues collected in towns with a larger tax base.

3. That $20 million per year be appropriated from the General Fund by the State government in order to promote progress toward school finance equalization at a reasonable, but not excessively rapid, pace. This amount could be increased if events such as the pending Supreme Court ruling on the school finance cases, demand or legislative judgment finds desirable, but this issue and many similar elements requiring further study, experience, or specific judgments are left for further study and action by the appropriate executive and legislative procedures.

4. That such calculations be modified to make available through SEEOF additional funds related to the extra costs of educating students in need of special educational efforts and programs by building into the yield calculations a "bonus" of 25% of average revenues per student for each individual student falling into any one of several definitions of disadvantaged student in need of costly extra efforts.

In operation, what these reforms accomplish in any town is to substitute in place of the actual yield from any mill rate based on that town's property a new figure which represents the State average (or, until full implementation, the original figure in the town plus certain additional payments from SEEOF.) All current school aid to towns will continue, and towns will continue to levy the property tax for non-school purposes just as they now do (but separated from school taxes.) A town also continues to choose its own school tax rate, the only difference being that, in the long run, the expected yield of a given mill rate will be calculated against the State average — so that a town with less property per pupil and lower collections than the State average (adjusted for the mill rate) will collect the difference between actual collections and the average, and a town with more than the State average will be making a net payment to the State. In all cases, however, these payments and averages will be adjusted to

be proportional to mill rates so that a town which is willing to tax more will have more funds available while a town choosing a lower mill rate will have less.

Reasons

As noted above, the essence of the school finance problem is that comparable families may pay widely-varied tax rates and per pupil school expenditures may differ by over 100%, even while the family paying taxes at higher rates may — and, in fact, more often than not, does — find that local school expenditures in its town are less than in other towns where tax rates are lower. This anomaly means that many towns cannot realistically expect to catch up to high-spending school districts — for that would require impossibly high tax rates — and that equal educational opportunity thus becomes an impossible goal for many parents and their children. Furthermore, these inequities are becoming worse instead of better. And, it might be noted, this is a problem not confined to any one economic group or type of town. The unfairly high tax rates coupled with low school expenditures are found in many of our rural towns, in many suburbs (particularly those where the average income is relatively low for suburban towns), and in some of our cities.

As an example of just how significant school finance inequities are in Connecticut, the Commission examined school expenditure totals and tax rates for the 169 towns. Per pupil school expenditures were found to vary by a ratio of almost three-to-one in 1970-71; the highest net current expenditure was $1469 and the lowest $538. Estimating "true" mill rates (mill levy adjusted to reflect 100% of current market value of taxable property) for education separated from other municipal services, the Commission found many towns at or above a school tax rate of 20 mills, while other towns were near or below 10 mills. Most important — for this is the basic inequity — the Commission found high tax rates to be correlated with low expenditures, while towns with the highest expenditures very often enjoyed relatively lower tax rates. For example, the 20 towns which spent the largest amount per pupil in 1970-71 (Net Current Expenditures averaging $1138 for the 20) imposed an average effective ("true" or 100% of current market value) tax rate of 12.1 mills, while the 20 lowest expenditure towns ($621 per pupil average) had an average tax rate of 15.0 mills. In other words, the top 20 towns spent almost twice as much per pupil, yet their tax rates were 20% lower. Similarly, comparison of two-thirds of the towns showed that the 50 towns with the largest tax base per student in the State enjoyed per pupil expenditures averaging $989 with an 11.1 mill tax rate while the 50 towns with the lowest tax base per pupil in the State spent $732 per pupil even though their tax rates averaged 19.0 mills. That is, comparing even these large numbers of towns to avoid distortion by one or a few exceptional towns (and thus concealing some of the more dramatic differences), 50 low tax base towns spent over $250 per pupil less than the 50 high tax base towns even though those towns with lower expenditures imposed a tax rate almost twice as great as the higher-spending towns.

The development of the new system proceeded with three fundamental principles in mind. First, the new system would not be permitted to disturb the ability of local taxpayers and parents to determine how much to spend on schools and how to spend it. Second, the mechanism was designed to remove the unfairness by making property tax rates and funds available for schools roughly of the same proportions in all towns; high expenditures should be correlated with relatively higher tax rates and vice versa. Finally, any new program should not require expenditure reductions or drastic tax rate increases in any town, although it must eventually bring expenditure differentials from the current three-to-one ratio down to a more moderate variation and should bring the existing two-to-one tax rate variations into line with the moderate expenditure differences. As set forth, the new program can comply with these three principles. The first recommendation — to retain local expenditure decisions — is superior to alternative reform proposals such as full state funding of local public schools in that parents and taxpayers can continue to choose how much to spend for local school systems. The second recommendation — a new system with local expenditure options and the Equal Educational Opportunity Fund payments — overcomes the problems and possible unconstitutionality of the current system by guaranteeing all towns property tax revenue yield per student varying only according to tax rate and not according to accidents of town wealth and development. The Commission program also meets the last objective —

minimal disturbance of existing tax rates and expenditure levels while working toward equalization — by phasing the new system into operation as growth in property values results in higher tax revenues at current mill rates in the towns. The $20 million contribution to SEEOF from the State's General Fund enables the new system to be phased into full operation a little more quickly, and it underwrites extra requirements associated with the cost adjustment built into the calculations.

The last school finance recommendation — that the basis of calculation be adjusted to reflect extra costs for certain disadvantaged students — is designed to meet a problem that has often been recognized apart from the equity issues, and which many critics argue may become more acute (especially in the central cities) as equalization is brought about. Many students need extra educational services in order to have a truly equal opportunity to learn. Extra programs are needed to overcome emotional, mental, or physical handicaps; a lack of social and environmental incentives for learning; and individual variation in readiness and motivation to learn or ability to adjust to the world of the classroom, books, teachers, and intellectual growth. Yet the existing system gives only limited aid through a variety of special State grants and the new equal opportunity system would not automatically reflect the greater concentration of children with such special and costly needs in certain towns and cities. Adjustment of the cost basis is an attempt to build into the heart of the new system a recognition that equal educational opportunity requires extra effort and that extra funds should be available to the school system to undertake such programs.

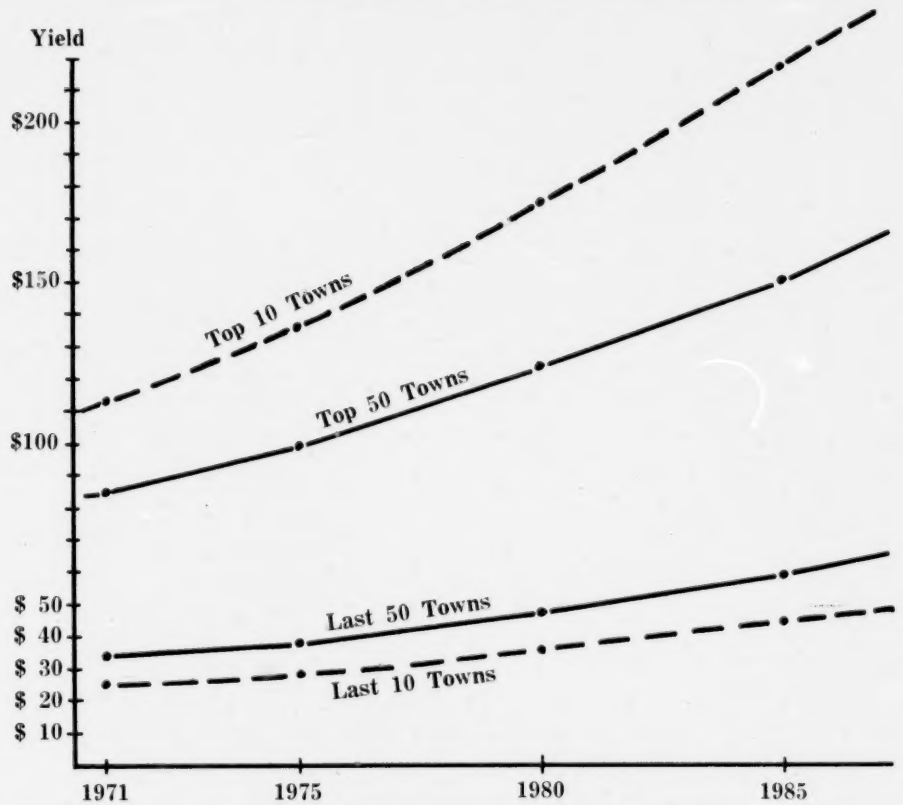
Impact on Towns

The primary impact of this school finance program will not be on the sum of funds available to the towns, although that will increase by $20 million, but on the individual towns now above or below the State average in tax base per pupil. The essential problem of the current system — higher tax rates with less available for schools — can be statistically summarized by the concept of tax base per student or property tax yield per mill per student. That is, if tax base is $50,000 per student, then each mill of the school tax rate will yield $50 per student (one mill yield is simply $1 per $1000 of tax base). Local school funds always equal yield per mill per student times the chosen mill rate. The problem in the current system is that yield per mill per student now ranges from over $150 in the top town to approximately $20 in the bottom towns. That means a 10 mill rate can produce $1500 in the first while the same tax rate produces only $200 in the second.

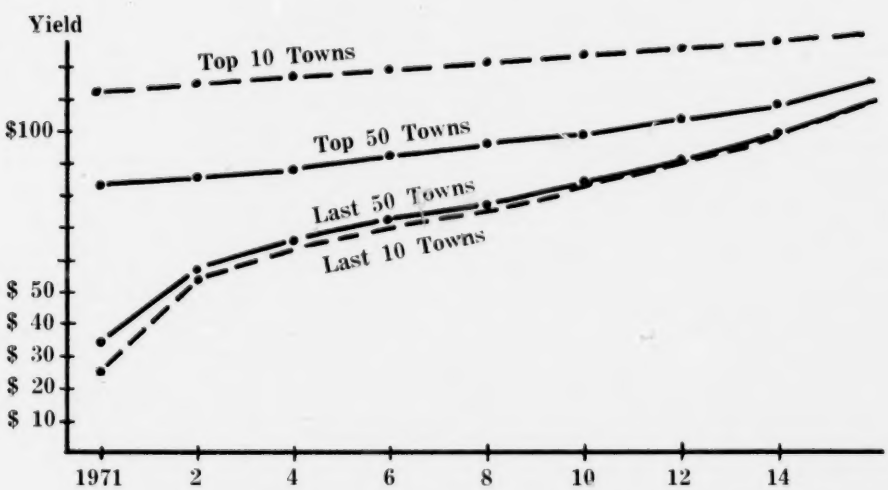
Chart 2 summarizes the current differences in yield per mill per pupil by comparing the top 10 and top 50 towns (in terms of tax base) to the last 10 and last 50. (Use of 10 or 50 towns averaged together assures that a small group of towns will not exaggerate the differences—in fact, these measures minimize the variances, if anything.) As shown in the chart, differences in 1971 are substantial, and the trend lines for each group show dramatically increasing differentials to be expected over the next 10-15 years.

The bottom graph of Chart 2 summarizes the effect of the Commission program on these same towns. By paying increases to SEEOF, the towns will move to substantial equality through the distribution by SEEOF of those funds plus the $20 million per year appropriation from the State General Fund, paid to the towns according to the formulas suggested by the Commission. To take one example from the two graphs, the top 50 towns can now expect $840 from a 10 mill rate (yield of $84 per mill per student) compared to $340 from a 10 mill rate (yield is $34) for the last 50 towns; by 1980, the trend will increase the comparison of equivalent 10-mill tax rates to $1220 for the top 50 and $480 for the last 50. According to the Commission program, however, the difference would begin to diminish significantly by the fifth year after implementation, when the top 50 receive $880 from a 10-mill rate and the last 50 $550, and substantial equality could be achieved by the fifteenth year when the differences are only $1050 for the top 50 and 950 for the last 50. Within a few years after that, all towns would be equal for a given tax rate except for relatively small variation due to the cost base adjustment for children in need of special efforts. But, throughout, no town will be required to tax at a higher or lower rate than it wishes; the above figures simply summarize the increasing equality of yield proportional to tax rate, translating equal tax effort into equal results for all towns.

CHART 2: Yield Per Mill Per Student Comparison Under Current and Recommended Systems



TREND UNDER CURRENT SYSTEM



EFFECTIVE YIELD UNDER NEW SYSTEM

(Alternative 2, Commission Recommendation)

Local Government — Assessment Reform (Volume II, Part C)

The property tax is an ad valorem tax levied under the provisions of the Connecticut Constitution. All property taxes are administered and collected by local units of government. Assessment is the responsibility of each of the 169 towns and cities. Connecticut's local assessors are presently either elected by the citizens of the town or appointed by its legislative body. In either case, there are no mandatory requirements with respect to the qualifications (training, experience, etc.) of the local assessors. Except for some general supervision, the State's only role in the assessment process consists of the Tax Department's co-sponsorship of a 4-day per year school for assessors. No established equalization procedure is performed in an effort either to equalize the basis of the total assessed valuations among taxing units or to equalize assessed values of specific classes of property within each unit. Property tax appeals are handled initially by local boards of tax review and, if necessary, the courts.

The basic issue in assessment for Connecticut, as in almost every other state, is simply how to achieve the most accurate valuation possible at a reasonable cost. The quality of assessment — whether assessed values reflect market values — determines whether property owners are asked to pay their fair share or only some haphazard approximation. Basically, property tax rates in a town are determined by the town legislative body, setting a mill rate sufficient to raise the necessary local funds when applied against all taxable property. When some properties are assessed at less than the official assessment ratio, other property owners must pay more than their fair share because the lower total property value simply means a higher mill rate. When a property is valued at more than the stated assessment ratio of market value, the owner of that property will pay more than his fair share.

One reason that assessment ratios for many properties fall below or exceed the official ratio in a town is that property values can change dramatically in a relatively short time. Currently, towns in Connecticut average about 10 years between revaluations of taxable property, a long enough period to let actual ratios increase or decrease considerably compared to official assessment ratios or the ratio applied to other properties. Thus, one important reform in any system, and especially in Connecticut, is the development of a system which can update assessments annually.

States which have adopted frequent and automatic reassessments benefit local governments in many ways. Increased assessments as property values increase do not necessarily mean increased taxes — if property values are increasing by 5% per year, new assessments annually which reflect those values permit a 5% reduction in the mill rate for the same expenditure levels or a constant mill rate for a 5% growth in expenditures (as opposed to the usual 5% increase in mill rates for a 5% expenditure increase). Furthermore, annual reassessments permit towns to contemplate budget decisions with more understanding of the consequences; an annual increase in the tax base of 5% annual reassessment means that a town can count on a 5% growth in revenues and still keep its tax rate at the same level, or a town can consider expenditure increases or decreases of other amounts with a clearer understanding of what such decisions mean in terms of the actual tax rate and the mill rate in the town.

Recommendations

1. That a State Uniform Assessment Law be enacted, establishing a State Board of Assessment Supervision with responsibility for all property assessment functions throughout the State, including supervision of all local property assessments. Specifically, the Board's functions would include (but not be limited to) the following:
   a) Establish and implement a statewide uniform assessment date of October 1 and a statewide uniform fiscal year beginning July 1 for all local governmental units.
   b) Establish statewide, uniform procedures for original assessment and valuation of property.
   c) Establish and implement a system of property assessments at a uniform 100% of full market value with mandatory provision for the full disclosure of assessed property values.
   d) Establish a program for certification of the professional competence of local assessors and of revaluation companies.

e) Supervise a centralized system of annual computer-assisted reassessments, annual revaluation of at least one-fifth of the property in each town with total revaluation of the town's property in each five-year period.

f) Maintain an accurate and up-to-date data bank on property sales — assessment ratios by property class and taxing unit.

g) Assess all tax-exempt and public utility property and review the assessments of all major commercial and industrial properties.

2. That all forest, farm land, and open space now preferentially assessed under the provisions of Public Act 490 be recertified and that meaningful and operational definitions and regulations for certification of such lands be promulgated to conform to the spirit and intent of the law.

3. That the minimum conveyance tax imposed on the sale of preferentially assessed open space land under Public Act 152 be levied at a 5% rate and that the year of land classification determine the holding period for purposes of assessing the conveyance tax.

4. That all undeveloped land not presently covered under Public Act 490 be reassessed in accordance with existing statutes to reflect current market values.

5. That a statewide and uniform minimum building permit fee of $5.00 per $1,000 of estimated construction cost be applied, that a uniform minimum schedule of fees for local inspectors be developed by the State Building Inspector, and that a system of penalties be applied to contractors for gross understatement of cost.

Reasons

Property is the single most important tax base in the Connecticut State and local tax structure, and is the tax base for supporting local governmental functions. The heart of the property tax is an accurate, current, and uniform assessment of property values. Poor assessment practices result in gross inequities as between property owners and discourage economic growth in the State. The existence of both unequal assessments and underassessments is well substantiated. Reform of assessment practices is clearly needed and long overdue.

The key to a balanced program of assessment reform is effective State supervision and coordination of local property tax administration. The State's administrative responsibilities should be vested in a single agency, professionally organized and equipped, and with adequate supervisory and regulatory powers clearly defined by law. At the local level, the requirement is for assessing units so organized and staffed as to provide professional assessments.

The current lack of uniformity in assessment dates and in the fiscal years of Connecticut local governments creates numerous obstacles to a well-coordinated State-local effort to improve property tax administration. Adoption of the October 1 assessment date and of uniformity in the fiscal year for both the State and local governments to begin July 1 would facilitate this objective.

Assessors are not now required by law to possess the knowledge, skill or training required for the efficient appraisal of property, nor are they equipped and staffed to accomplish annual assessments. Certain types of industrial property as well as utility property can be adequately assessed only by highly trained personnel; moreover, local assessors generally do not have access to sufficient information to permit proper assessment of these complex classes of property. State certification of the professional qualifications of assessors and appraisal companies will assure the foundation for uniform assessment standards. State assumption of the current piecemeal appraisal of multi-taxing unit property and the supervision of the assessments of major commercial and industrial properties will relieve the local assessors of needless duplication and overlapping of appraisal and maintain statewide standards of valuation and procedures.

The present system of periodic and fractional assessments fosters general underassessment and a high degree of non-uniformity of property valuations. Unpublished, outdated underassessments and widespread unequal treatment diminish the taxpayers' opportunities for seeking relief, should it be necessary. When property is assessed annually at 100% of full market value and the assessment rolls are kept current and made public, a ready system of checks and balances will be available to maximize both uniformity and equality of assessments and stimulate taxpayer concern and responsibility in the performance of Connecticut local governments. A centralized, computerized data bank with a record of current property transactions will facilitate the

requirement for partial annual assessments and the five-year internal general revaluation.

There is ample evidence that vacant land is generally underassessed and that significant abuses exist for forest, farm, and open space land preferentially treated under Public Act 490. A careful review of present practices and regulations will remove any irregularities in the assessment of land and improvements and assure that the public's interest is being served in the application and implementation of State laws. The conveyance tax based on the sale price of land classified as open space diminishes to zero after a 10-year holding period. The holding period begins in the year of title ownership. The Commission recommendation would permit recapture of at least a part of the tax benefits realized by owners of qualified land and would realistically establish the holding period.

Uniformity in the amount charged for building permits and for inspection fees would enhance and serve to enforce compliance with the objective of accurate, up-to-date, and uniform assessments of new and existing property. Presently, estimated construction costs are left to the discretion of the contractors and can be unrealistically low.

Assessment Reform: Cost/Benefit Summary

The estimated annual cost of administration of this program is $5 million. This would include the entire staff, office housing costs, and computer costs. This can be entirely borne by the State or a portion can be prorated to the towns. For instance, computer time allocated to a particular town can be paid by that town, and State assistance to the local assessor in the valuation of special properties can be levied to the town.

In the Commission's opinion, there will be little increased cost to the towns for having an annual reassessment program because the money they are now spending once every 10 years in a lump sum will be spread out evenly over the 5-year period.

Assessed value of dwelling houses only, on the grand list of 1970 in the entire State is $7,556,-696,866. There are 694,597 dwelling units which indicates an average assessment per unit of $10,879. After allowing for a 10% tolerance between actual sales and assessed valuation, a study of all the sales in 6 of the towns surrounding Hartford has revealed that 18% of the total number of properties sold are assessed under 10% of the average assessment percentage in the year 1971, and only 3% were assessed above 10% of the average assessment. This same study reveals that as the sale price increases over the $40,000 price range, the assessment value gets progressively lower than the average percentage for the town as a whole.

From this data it is estimated that with uniform assessments there will be an increase of 10% in the value of dwelling units in the State or a total increased assessed value of $750 million. The remaining $250 million will be derived from underassessment of all other properties. While specific data has not been developed in these other areas, the Commission believes that substantial underassessment is prevalent in some classes of property.

Overassessment of residential property was small in dollar amount according to the sales research, but a spot check across the State of obsolete industrial plants which have sold during the past 10 years reveals that some reductions in assessed values are warranted and would be granted in a uniform assessment program. The overassessments resulting in grand list reductions are netted in the figures presented in Table 9.

TABLE 9: Estimated New Revenues To Towns After Assessment Reform

Property Class	*Est. Increased Asses.*	*Est. Revenue*
Undeveloped land	$1,000,000,000	$50,000,000
Motor vehicles excluding automobiles	50,000,000	2,500,000
Real Estate underassessed	1,000,000,000	50,000,000
Conveyance tax P.A. 152		1,000,000
Assessment on tax exempt property, occupied by non-exempt parties	10,000,000	500,000
Building permit fees		2,500,000
TOTAL ESTIMATED INCOME		$106,500,000
Real estate overassessed	100,000,000	—5,000,000
Net Estimated Income		$101,500,000

Connecticut had 2,137,663 acres of undeveloped land having an assessed value of $1,051,464,959 in the year 1970. As a matter of policy, assessors historically have disregarded the law in the valuation of undeveloped land. A detailed discussion of land value is considered here because it involves a substantial estimate of revenues being lost by underassessment.

The present law pertaining to land values is no different than for any other class of property except for lands which qualify under Public Act 490. One town studied in detail revealed that assessments on undeveloped lots were one-third lower than on improved properties and raw acreage assessments were only one-fifth those of improved properties.

The Commission concluded that about half the undeveloped land in the State has been or can be qualified under Public Act 490. The remaining half, when properly assessed under present law, will have an assessed value in excess of $1 billion over the present assessed value.

Some vehicle owner's avoid taxation by moving them from town to town, utilizing the different assessment dates to avoid declarations to local governments. In addition, unregistered vehicles and underassessed special equipment result in further loss of revenue. This loss in revenue is impossible to estimate with any degree of accuracy, but the Commission feels that more than $50 million of property in this category is presently not being carried on the town grand lists.

Public Act 152, conveyance tax on properties assessed under Public Act 490, is too recent to produce income figures for this Report. Estimated income in this category is based upon the new formula being recommended by this Commission.

For many years there has been a conflict between assessors and owners of tax-exempt properties over portions of tax-exempt properties occupied and used by non-exempt parties. In the opinion of the Commission, if the law is clarified to permit assessments on such portion of properties now enjoying exempt status, but occupied by non-exempt parties, or where a competitive profit-making business is being conducted by the tax-exempt owner, there would be substantial revenue derived.

Table 9 shows estimated gains and losses from the sources stated above. Revenues are based upon the present State average mill rate of 50 and levels of assessment now prevailing.

TAXPAYERS — Tax Reform for Individuals (Volume III, Part A)

There are three major direct taxes paid by individuals at the State and local level — the property tax, the retail sales tax, and a broad based income tax. Connecticut taxpayers are presently paying property taxes and a retail sales tax. The State is one of ten that does not have a broad based income tax; three of the ten tax selected investment income (Connecticut taxes dividends and capital gains).

Property taxes are discussed elsewhere in the Commission Report (Volume II, Part A).

A 7% sales tax is levied by Connecticut on consumer purchases of retail goods other than food, prescription medicine, heating fuels, children's clothing (under age 10) and the first $10 per month of utility services. Unlike many other states, Connecticut local governments are not allowed to levy an additional sales tax.

Since July, 1969, Connecticut has taxed capital gains. While legislation providing for the tax is being challenged in court, the tax is currently assessed for the most part at 6% of the gains as determined for Federal income tax purposes (i. e., half of net long-term gains). A tax on dividend income received by individuals after 1970 is also levied at a 6% rate, and is also being challenged in court.

Since 1967 Connecticut has levied a real estate conveyance tax at the rate of $1.10 per thousand dollars of total sales price, the proceeds being retained by local governments. Thirty-six other states levy a similar tax at varying rates at the State or local level.

A broad based personal income tax was originally enacted by the Legislature in 1971, but due to immediate adverse reaction by the public was repealed retroactively a month later. Advocates of the tax introduced legislation to impose the tax in the 1972 Legislature and will most certainly continue their efforts in future sessions.

Connecticut individual taxpayers are subject to a number of other taxes on a direct basis, such as those on gasoline, cigarettes, inheritances, etc. In addition to the so-called "direct" taxes, the individual indirectly bears the ultimate burden of all taxes levied at any level of government.

Recommendations

1. The present 7% sales tax should be continued, with an orderly program of reduction in the future as excess revenues develop; as an alternative the 7% rate can be reduced to 6½% beginning in Fiscal 1974 if coupled with a broadening of the base to include children's clothing and personal services — the base broadening should not disturb the exemptions for food and medicine.

2. The 6% tax on dividend income of individuals should be removed for income years beginning on or after January 1, 1973, and the tax on capital gains be continued at a 6% rate on the entire gain, without a 50% deduction.

3. The present real estate conveyance tax rate should be increased to $10 per thousand dollars of sale price with local governments retaining the present $1.10 and forwarding the balance to the State.

4. A Connecticut personal income tax should not be imposed.

Discussion — Sales Tax

The comment is frequently made that the Connecticut sales tax rate of 7% is the highest in the country. While this is true if one compares only gross rates at the state level, it is not true in an "effective rate" comparison, which takes into consideration the fact that many other states permit local governments to levy sales taxes in addition to the state tax, and that exemptions from the tax in Connecticut are not allowed in many other jurisdictions. For example, only 18 other states exempt food purchases.

A U.S. Department of Commerce study states that on a tax revenue per $1,000. of personal income in 1971 the 50 states sales tax average was $19.47 while the Connecticut average was $17.94.

Another example of the favorable effective sales tax rate in Connecticut can be derived from "optional sales deduction tax tables" prepared by the Internal Revenue Service for 1972 individual income tax returns. For example:

	Sales tax rate	Family of 4 with adjusted gross income of: Under $3,000	$5,000 to $5,999	$10,000 to $10,999
Connecticut	7%	$49	$94	$161
Illinois*	4%	$92	$144	$208
New York**	4%	$53-93	$90-158	$139-244

*Additional local rates up to 1% included.

**Plus local rates of up to 3%—amounts show range from 0% local tax to the maximum 3% (approximately 85% of the population is subject to the 3% local rate).

Illinois has no exemption for food, etc., New York has no exemption for clothing, utilities, and heating fuel.

Another comment concerning the sales tax is that it is regressive. This is a question which involves difficult definitions and for which it is hard to obtain objective conclusions. In addition, the question of regressivity depends on the entire state and local tax structure. For example, the progressive features of the food exemption such as Connecticut's is demonstrated by a study which showed that food represented 34% of the budget of low income families, 29% of moderate income families, and 26% of higher income families. As discussed elsewhere, the Commission is of the opinion that the State's total tax structure can best be described as proportional.

Exemption of children's clothing has been difficult to administer in the past because of the problem of estimating ages and clothing styles, and may also contribute to the regressivity of the sales tax. The addition of personal services will also have the effect of making the sales tax less regressive since low income groups spend less on personal services than do higher income groups. Removing these exemptions should make the sales tax more equitable without increasing its overall burden to residents of the State.

Discussion — Tax on Dividends and Capital Gains

The Commission has recommended that a personal income tax not be imposed in Connecticut, and since the tax on dividends is clearly a tax on income it is discriminatory. In addition this tax often falls on those least able to pay it, those in low income brackets such as the elderly who have invested in stock to provide for retirement income. On the other hand, the character of a tax on capital gains is not as clearly characterized as a tax on income by many economists and tax specialists. Whereas dividends and interest are often de-

pended upon for the necessities of life, capital gains are for the most part realized on the basis of investment decisions. Individuals realizing capital gains on this premise are more able to pay a tax on the entire gain from the proceeds of the transactions.

Discussion — Real Estate Conveyance Tax

The real estate conveyance tax follows a well-established pattern (37 states levy a real estate transfer tax at the state and/or local level) and is easy to administer. It applies for the most part to property that does not change hands frequently. While the proposed rate is substantially higher than in most other states, it should not prove onerous in view of the trend of rapidly increasing real estate values.

Discussion — Personal Income Tax

A Connecticut personal income tax was recommended by the Connecticut State Revenue Task Force and the Governor's Strike Force for Full Employment in 1971. Both groups felt it was necessary to recommend the tax to achieve their estimates of revenue needed by the State government, which were based on a minimum of 10% incremental expenditures each year. As shown in detail in the Report, this Commission anticipates that State expenditure needs will increase only 5% a year through Fiscal Year 1977. In view of this estimate the Commission is of the opinion that this new tax is not necessary to raise sufficient revenue for present and projected State spending. In addition, the Commission believes there are other persuasive reasons for not imposing a personal income tax in Connecticut:

1. An overall proportional structure is created by the balanced program the Commission recommends, without an individual income tax.

2. There is no merit to the argument that Connecticut should have a personal income tax, whether it needs it or not, just because 40 other states have one. We are not aware that other states have mitigated recurring problems concerning revenues and expenditures by enacting personal income taxes, or that Connecticut's problems have been more severe without such a tax.

3. The Commission is concerned that imposing a new tax would open up another source of revenue which could lead to unnecessary spending with, at the most, temporary rate reductions in other types of taxes.

4. A personal income tax could have an adverse effect to Connecticut on business location decisions. Absence of a State individual income tax is a positive factor to corporate officials in making location decisions.

5. Connecticut taxpayers have been subjected to increased taxes on their earnings in 1972 because of increased Social Security payments, and further increases are scheduled for 1973 and 1974.

6. The majority of the State's citizens do not want a personal income tax. This has been demonstrated by their immediate and forceful reaction to the Legislature's attempt to impose such a tax in 1971; public opinion polls in the State have reaffirmed this view of public opinion.

For the reasons discussed above, the Commission has recommended that an individual income tax not be imposed on Connecticut taxpayers.

Taxpayers — Tax Reform for Business (Volume III, Part B)

Connecticut businesses, other than those engaged in certain specialized industries, pay local taxes on their real and tangible personal property and the 7% sales tax on purchases of tangible personal property. Those businesses organized as corporations also pay a corporate business tax. Industries such as banks, insurance, transportation and public service companies may pay a combination of these taxes, and in addition may be subject to business taxes unique to their particular industry.

The corporation business tax is assessed at the higher 8% of taxable income, or an alternative, 4 mill tax based on net worth (capital) and debt. Connecticut generally follows the Federal definition of taxable income with two major exceptions, the disallowance of loss carry forwards and partial disallowance of interest paid as a deduction. The latter disallowance is being phased out, however, so that interest on indebtedness will be fully

deductible in the near future. The 8% rate on taxable income is among the highest in the country.

The personal property tax on inventories is currently being phased out (1976 for manufacturers and 1982 for retailers and wholesalers). Payments are made by the State to local governments in lieu of the tax on inventories.

Recommendations

1. The sales tax on manufacturing and farming machinery and equipment should be eliminated in two stages: a 50% reduction effective July 1, 1973, and the balance eliminated July 1, 1976.

2. The personal property tax should be eliminated on new purchases of manufacturing machinery and equipment, furniture and fixtures and all other personal property other than motor vehicles, rolling stock of contractors, aircraft and the personal property of public service companies.

3. The current 8% rate on taxable income should be continued but the tax should be amended to conform more closely to Federal law in permitting loss carryforward deductions and the filing of consolidated tax returns where such returns are filed for Federal purposes.

4. The current program which removes the disallowance of a deduction for interest paid should be continued to its programmed elimination in 1976 for banks and 1974 for other corporations.

5. The alternative 4 mill tax on capital and debt should be replaced by a minimum alternative franchise tax measured by issued and outstanding shares of stock.

6. The corporation net income tax should be extended to include domestic insurance companies.

Discussion

The benefits of economic activity and business growth accrue to everyone through increased employment. Every effort must be made therefore to provide job opportunities to ensure employment of all Connecticut workers through the maintenance of a favorable environment for the retention and expansion of existing industry and the location of new industry within the State.

Manufacturing employment in Connecticut during the period since 1960 has declined 1.6% while on the national level it has increased 10%. Had Connecticut maintained its growth at the national rate it would have meant a 50,000 increase in manufacturing jobs over our present level, and, due to the multiple effect (creation of additional jobs in construction, financial, retail, service and government), an overall increase of over 100,000 jobs.

The State has a large work force trained and qualified for manufacturing and manual jobs, a work force that in many areas has borne the brunt of increased unemployment. Nor can we overlook the future needs of this work force as our young people move into the job market.

The tax structure in Connecticut is frequently not competitive with that of other States, resulting in many location decisions being adverse to a Connecticut location.

The Commission recommendations are intended to place Connecticut businesses on a competitive basis with other states with similar geographic and economic environments. It is not the intent to recommend changes that will result in Connecticut business being taxed "lower" than those in competitive states. The objective is to present business with an equitable, stable, and predictable tax structure that does not penalize investment within the State. It should be noted that while the Commission has recommended an overall reduction in business taxes within the State, it has also recognized that in specific areas Connecticut business should bear an additional share of the State's revenue burden.

Investment Taxes

Significant taxation occurs at the time of investment within Connecticut acting as a negative factor in attracting new business to the State. Taxing investment instead of profitability of a business discourages expansion and modernization of Connecticut businesses.

Taxes on investment include:

1. Personal property taxes on manufacturing and farming machinery and equipment.

2. Personal property taxes on inventories.

3. The sales tax on manufacturing and farming machinery and equipment.

The greatest area of concern is the personal property tax. Besides constituting a major obstacle and potential deterrent to capital investment it is opposed on the grounds of equity: equitable and uniform assessments are unobtainable,

and the tax bears no relationship to the profitability of business. For these same reasons the Commission recommends continuance of the phase-out program for the tax on inventories of manufacturers, wholesalers, and retailers. The Commission recognizes the difficulties associated with its personal property tax recommendations, but believes that the positive effects of the entire Commission reform package, including recommended increased assistance to local units, will more than compensate for the loss.

The sales tax on manufacturing and farming machinery and equipment also represents an additional fixed investment cost that must be borne by business before profitable productive operations begin. As such, it also represents a deterrent to business growth and employment opportunities. To reduce the initial revenue loss impact it is recommended that the repeal be effective in two stages.

Corporate Business Tax on Income

While Connecticut's corporate income tax rate is among the highest of all states, the Commission does not feel that it is necessary to reduce the rate to remain competitive in view of the balance established by its other recommendations. However, businesses should be permitted to carry forward operating and capital losses to be offset against future profits, and to file consolidated corporate income tax returns if they do so for Federal purposes. The adoption of these recommendations should encourage Connecticut locational decisions since new businesses often operate at a loss and are understandably discouraged by the possibility of paying taxes on profits without receiving recognition for losses. In addition, in today's multiple corporation environment the necessity of preparing and filing numerous tax returns for companies operating in fact as a single economic entity has become a substantial administrative burden.

Disallowance of a deduction for business interest paid is a discriminatory provision unique in state income tax law, a fact the Legislature recognized by providing for elimination for corporations other than financial institutions in 1974 and for them in 1976 in graduated stages. Due to the short duration of the phase-out period of this unfair rule as to a specific and necessary business expense the Commission is not recommending immediate elimination. It does recommend that this phase-out period not be lengthened.

Connecticut insurance companies have been subject to two taxes which discriminate against domestic insurance companies: a 3½% tax on interest and dividends which is scheduled to be reduced to 2⅝% on July 1, 1973 and to expire on December 31, 1973, and a tax on insurance premiums of ½% to ¾% higher than the 2% tax paid out by out-of-state insurance companies on Connecticut business. The premium tax is due to be equalized to 2% on July 1, 1973.

To encourage Connecticut insurance companies to expand within the State and provide jobs for Connecticut citizens the Commission favors the existing legislation phasing out this discriminatory tax on interest and dividends and insurance premiums. However, it is recommended that domestic insurance companies pay a Connecticut corporate income tax after elimination of the interest and dividends tax in 1973.

Capital Structure Taxes

Connecticut's minimum alternative tax of 4 mills on a corporation's net worth (capital) and debt applies where the amount calculated exceeds the corporate income tax liability. This tax affects those corporations which must borrow outside funds to expand operations, or which are suffering operating losses. No other State has such a burdensome tax.

The Commission believes that all corporations doing business within the State should pay a minimum tax for that privilege, and recommends an alternative franchise tax based on issued and outstanding shares. The tax would apply only if the liability exceeds the corporation income tax and would be at a rate substantially less than the present minimum tax. The range of the recommended tax would vary from a minimum of $45 to approximately $100,000 for the largest companies operating in the State.

Commission recommendations do not apply to minimum alternative tax calculations of two specialized industries. Investment funds which are given special status under the U. S. Internal Revenue Code should continue to be taxed under their current provisions. Secondly, financial institutions are liable for an alternative tax based on interest and dividends paid or credited. We have been furnished information that this alternative tax may create substantial adverse financial effects in the immediate future. We recommend immediate legislative review of the present minimum alterna-

tive tax as applied to financial institutions.

Areas of Additional Study

The Commission has compiled information and heard testimony as to Connecticut taxation of many specialized industries, but has not recommended changes in these industries at this time. One of the reasons is that the general business tax relief recommended will be of assistance to all Connecticut industries. Discriminatory tax provisions affect certain of these industries and may have an adverse effect on the State's economic well-being. But taxes on special industries often reflect non-revenue objectives which must be considered apart from the tax aspects. The Commission recommends that thorough studies be made in the near future and appropriate action taken where necessary. These industries for which intensive studies would appear necessary include financial institutions, utilities and transportation.

Revenue Impact

The Commission's recommendations in the initial years of enactment would result in the following increases and decreases in tax burdens on business as compared to taxes in effect in FY '73.

	Annual increase (+) or decrease (—) in tax liability in millions
Change at local level	
Initial reduction of the personal property tax on manufacturing and farming machinery and equipment	–$7.0
Change at State level	
Corporation business taxes	
Other than insurance companies	–$8.0
Income tax insurance companies	+ 7.0
Initial reduction in sales and use tax on manufacturing and farming machinery and equipment	–20.0
Total net change at the State level	–$21.0

Taxpayers — Procedural Reform (Volume III, Part C)

Connecticut's tax system can be made to function more efficiently and equitably and probably at lower cost if necessary reforms covering tax procedure and administration are adopted and Connecticut's tax laws are organized into a Connecticut Revenue Code.

Under the existing tax system the administration and collection of most Connecticut taxes is hampered by poorly organized and poorly drafted statutes combined with outmoded and conflicting procedures. The newly adopted Uniform Administrative Procedures Act has not adequately resolved these conflicts and inconsistencies, and, in some cases, has added to the confusion.

The ability of the State Tax Commissioner to collect taxes to which the State is legally entitled is seriously impaired by unsatisfactory lien powers.

There is a need for the establishment of clear procedures to give the taxpayer a prompt and inexpensive opportunity to be heard when he disagrees with the application of the State tax law to his particular situation.

The only exceptions to deficient administrative procedural problems are the succession and estate taxes. Because of their close association with the probate process, death taxes continue to require different collection provisions than the 25 other taxes collected by the State.

Recommendations

1. Tax laws should be reorganized into a Connecticut Revenue Code. Title 12 of the General Statutes, dealing with taxation and other revenue sources, should be completely revised and compiled into a comprehensive Connecticut Revenue Code, containing a logical and orderly arrangement of all substantive and procedural tax statutes, wherever they now appear.

2. Conflicts in the tax statutes, including conflicting provisions as to court jurisdiction, should be eliminated and the State Tax Commissioner exempted from the Administrative Procedure Act. Conflicts between the present tax procedure, the new Uniform Administrative Procedure Act, and other laws should be eliminated. While a number of the Administrative Procedure Act's concepts can be used in the Connecticut Revenue Code, the provisions of the Act are too general to deal effectively with taxation.

3. Tax procedure and administration for all taxes administered by the State Tax Commissioner, except death taxes, should be as uniform as practicable and a procedure for issuing rulings to taxpayers should be set up in the Tax Department.

A part of the recommended Connecticut Revenue Code should consist of internally consistent procedure and administration sections, with adequate lien provisions and a clear, informal, and simple method of taking administrative appeals in the tax department.

4. A study should be made of the possible need for a State Tax Court.

5. Appeals in tax and condemnation valuation disputes should be referred to referees, without short calendar hearings in the courts, and the requirement that tax litigation be begun by a sheriff serving process should be eliminated.

6. A Chief Counsel to the State Tax Commissioner should be appointed by the Commissioner. The Chief Counsel and his staff would assume responsibility for tax work done by the Attorney General. The Chief Counsel would also conduct all tax litigation (except death and property tax appeals), review proposed tax regulations, advise the State Tax Commissioner as to the hazards and costs of litigating issues, prepare written opinions for the State Tax Commissioner, and review rulings to be issued to taxpayers by the State Tax Commissioner.

7. Penalties for failure to file, filing a return late, or paying a tax late, should be uniform. There should be no penalties for a deficiency except for one resulting from the filing of a false, fraudulent, or negligently prepared return or for failure to file a timely return. The Commissioner should have discretion to waive all or any portion of a penalty, according to standards prescribed by regulations. The desirability of changing criminal tax sanctions should be studied.

8. Interest should be at the same rate on both deficiencies and refunds. The Commissioner should be required to recommend to the Legislature, before each annual session, whether or not this rate should be adjusted upward or downward, or a floating rate established.

9. Auditing procedures of the State Tax Commissioner should be made more efficient and productive, including the use of an in-house computer in his department. A sales tax audit selection system, similar to that used by California, should be established. The staff of the Computation Section, under the First Assistant State Tax Commissioner for Inheritance Taxes, should be expanded so as to eliminate the costly delays (running to 4 or more months at present) in obtaining final computation of inheritance taxes.

A revolving audit fund should be created to receive all additional assessments, pay out refunds, and hire additional auditors, so that audit programs may be expanded or contracted depending upon their relative productivity, without requesting new appropriations. Taxpayers as well as the State Tax Commissioner should be authorized to round off all figures to the nearest dollar, to save internal processing costs.

10. A Tax Policy and Advisory Group should be created, consisting of tax practitioners, tax administrators, and distinguished lay citizens.

11. Refunds should be made directly by the State Tax Commissioner, without the cumbersome procedure of having them certified and paid by the Comptroller.

Fiscal Impact of Commission Program

The Commission has based its program on the philosophy of maintaining taxation at the lowest possible level consistent with expenditure growth. Obviously, if major new programs are adopted in addition to the Commission recommendations, the revenue requirements will have to be determined and provisions made to develop the needed revenues through tax increases or other means, concurrently with the adoption of the new programs. The cause and effect relationship of revenue and

new programs will, therefore, need to be considered by the Legislature as a precondition to authorization of major spending.

The implementation of various elements of tax reform has been timed so as to provide revenue coverage in the appropriate years. Effectively, then, the Commission's program is designed to identify and reserve excess revenues presently being developed for both tax reform and necessary compensatory programs. The Commission program is, therefore, self-financing.

Explanation of Tables 10 and 11

Table 10 shows the net effect of the reforms the Commission is proposing beginning in FY '74. All items are shown as a differential from the FY '73 base year. The cost of the program as a reduction from the present structure varies from $56 million to $96 million through FY '77. The table shows excess revenues from the present structure ranging from $58 million in FY '74 to $128 million in FY '77. Deducting the cost of the Commission's program from excess revenues leaves an estimated surplus varying from $2 million in FY '74 to $32 million in FY '77.

The Commission's program as it affects local government is described in Table 11. This table shows the net impact of two major thrusts, i. e., taxes foregone by local government through the personal property tax exemptions and increased revenues gained through improved assessment procedures and compensatory State grants. The improved assessment system is expected to identify properties which are currently underassessed according to existing statutes. The assessment reforms should become partially effective in FY '75 and fully effective in FY '76.

The Commission program for local government allows for a gradual phase-out of the personal property tax base through depreciation and exemption of new purchases. The Commission estimated the full depreciation cycle will take approximately 10 years on a linear basis. While Table 11 projects ahead only through FY '77, it is felt the overall growth in the real property base, partially as a result of the Commission's program, will more than offset the subsequent effects of the personal property base depreciation. Additionally, the compensatory programs can be continued and adjusted to the changing circumstances of subsequent years.

TABLE 10: Summary of Commission's Recommendations Affecting State Governmental Revenues/Expenditures

Referenced to FY 1973 As Base Year
(in $ millions)

	FY 74	75	76	77
A. *Tax Reductions—Loss of Revenue*				
*1. Sales Tax Decrease to 6½%	–34	–37	–40	–43
2. Eliminate Tax on Dividends	–29	–31	–33	–35
3. Corporate Income Tax/Min. Base	– 8	– 8	– 8	– 8
4. Eliminate Sales Tax on Manufacturers' Machinery and Equipment	–20	–22	–24	–50
B. *Increases in Costs due to Commission Programs*				
1. Elderly Renter/Owner Circuit Breaker	–15	–18	–20	–22
2. Aid to Cities				
(a) Block Grants	–10	–10	–30	–30
(b) Funds Available to Cities Based on Tax-exempt Property Formula	–10	–10	–10	–10
(c) State Property Reimbursement	– 2	– 2	– 2	– 2
3. School Equalization	–	–	–20	–20
4. Assessment Services	– 2	– 3	– 3	– 3
C. *Tax Increases—Gain in Revenue*				
*1. Sales Tax Base Broadened	+36	+39	+42	+45
2. Long-Term Capital Gains @ 100% of Value	+20	+22	+24	+27
3. Real Estate Conveyance Tax Increase from $1.10 to $10/thousand	+18	+20	+22	+24
4. Bring Insurance Industry Under Corporate Income Tax	–	+ 7	+ 8	+ 9
D. *Reductions in Costs due to Commission Programs*				
1. Eliminate Grants in Lieu of Taxes on Manufacturers' and Merchants' Inventories	–	–	+20	+22
NET CHANGES/COST OF COMMISSION PROGRAM	–56	–53	–76	–96
ESTIMATED EXCESS REVENUES**	+58	+76	+101	+128
SURPLUS AFTER COMMISSION PROGRAM	+ 2	+23	+ 27	+32

*See recommendation A (Part A, Volume III). The revenue effect of continuing the sales tax @ 7% or reducing the tax to 6½% on a broadened base is negligible.

**Revenues in excess of expenditures based on current tax structure and projected spending level.

TABLE 11: Summary of Commission's Recommendations Affecting Local Revenues/Expenditures

Referenced to FY 1973 As Base Year
(in $ millions)

	FY 74	75	76	77
A. *Tax Reductions*				
1. Personal Property Tax: eliminate all except motor vehicles, rolling stock of contractors, and personal property of public service companies	– 7	–14	–21	–28
2. Loss of Revenue from Over-assessments	– 5	– 5	– 5	– 5
B. *Tax Increases*				
1. Building Permits — $5 per $1,000 new construction	+2.5	+3.0	+3.5	+4.0
2. Service Charges Levied on Tax-exempt Institutions	+3.5	+4.0	+4.5	+5.0
3. Conveyance Tax P.A. 152—5% recapture	+1.0	+1.5	+2.0	+2.5
C. *Additional Revenues from State Sources*				
1. Increased Block Grant Programs	+10	+10	+30	+30
2. State Grants to Locals Sharing a Disproportionate Burden of the Cost of Tax-exempt Property	+10	+10	+10	+10
3. State Grants in Lieu of Taxes on State Property	+ 2	+ 2	+ 2	+ 2
4. School Equalization Funds	–	–	+20	+20
D. *Reduction in Revenue from State Sources*				
1. Inventory — Grants in Lieu of Taxes	–	–	–20	–22
E. *Additional Revenue Available from Local Sources*				
1. Underassessed Property	–	+50	+115	+120
2. Cost of Assessment Program	– 2	– 3	– 4	– 5
TOTAL GAINS FROM COMMISSION PROGRAM	+29.0	+80.5	+187.0	+193.5
TOTAL REDUCTIONS FROM COMMISSION PROGRAM	–14.0	–22.0	–50.0	–60.0
NET INCREASE AVAILABLE FOR PROPERTY TAX REDUCTION	+15.0	+58.5	+137.0	+133.5

Source of Estimates

All revenue estimates or program costs were developed in consultation with one or more of the following agencies: State Tax Department, Department of Finance and Control, Division of the Budget, Connecticut Public Expenditure Council, or material developed by the State Revenue Task Force.